

BLUE GRANITE CAPITAL, LLC INVESTMENT COMMENTARY November, 2009

“Rolling the Dice” With equity markets having gained nearly 60% from the 12-year lows reached in March 2009, it’s no time to roll the dice! Stock markets around the world have experienced impressive rallies, rebounding from the devastating losses that resulted from the financial crisis and ensuing recession. Arguably, the pendulum may have swung too far from the impact of these colossal events, but the same can be said for the recent rally. It is no time to speculate, but rather a time to adopt a more conservative asset allocation strategy that will better protect your nest egg. Now is a great opportunity to take advantage of this big rally which has mitigated the damage from 2008’s portfolio losses. Near term, further stock market gains are uncertain and historically low bond yields further complicate the outlook. Given the current mixed economic signals, speculating with an investment strategy that principally emphasizes one asset class to the exclusion of others may be a risky proposition.

In our opinion, the most viable solution is to adopt a comprehensive asset allocation strategy, which will protect your capital, minimize market risk, and generate significant income from stock dividends and bond interest. The result will be a higher quality, lower risk portfolio that will steadily grow and perform better in a variety of market and economic conditions. This time-tested strategy is one of the premier methods to reduce market risk and preserve portfolio assets. Caution is warranted in today’s uncertain economic environment, not risk taking or speculation.

It is easy to see why investors are still holding on to their stock portfolios in an effort to recoup last year’s devastating losses. However, now may be the best time to re-evaluate your portfolio strategy to avoid a repeat performance of the past year’s losses. Recent equity market gains have now taken pressure off the impulse to “roll the dice” and take unnecessary risk. It’s timely and prudent to take advantage of the recent rally in both stocks and bonds, to finally reallocate your investments more conservatively and adopt a balanced strategy. The last 10 years have demonstrated the value of a disciplined asset allocation strategy. Stocks have lost money over the past decade, while bonds have returned over 6.3% per year. Had an investor adopted a balanced strategy, they would be celebrating portfolio gains and not dwelling on investment losses.

The market has a reasonably good chance of pulling back from here and “reverting to the mean”. Despite the probability of an economic rebound over the next year, stocks have performed so well that a market sell-off is very likely. To protect portfolio gains, investors should take some profits and reallocate their investments into a more balanced asset allocation strategy. Such a strategy has proven to minimize risk, smooth market volatility and better preserve your hard earned capital.



The economic environment still poses many challenges for both the stock market and interest rates. There are a number of critical issues that will influence an economic recovery including: housing, consumer spending, the \$787 billion stimulus package, Fed policy (rates), energy costs, the U.S. dollar, inflation/deflation, government debt & borrowing costs, healthcare reform and China's economic growth. Whether the recession has actually ended continues to be a subject of much debate. If the recession is now over, how anemic or strong will the recovery actually be? The significance of these issues should drive your investment decisions, and given the current uncertainty, adopting a conservative asset allocation (strategy) is really imperative, instead of *"rolling the dice"*.

We hope the information provided regarding your investments and the economy is both insightful and useful, especially given the complicated circumstances we have witnessed during the past year. Please call us should you have any questions or concerns, or wish to discuss any aspect of your portfolio strategy.

Warmest Regards,

Scott B. Shubert

