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Greetings,

Last month was the worst June for the DOW since June 1930. The stock market is acting like the economy is similar to June 1930 when it was 8 months subsequent to the crash of October 1929 and the depths of the Great Depression. The last six months was the worst first six months for the DOW since 1970. Without a doubt, the economy is in bad shape. It is not nearly as bad as it was in 1970 or 1930 but the stock market is acting like it is.

My investment objective is to do well in the long term in both absolute terms and relative to the market. We did well last year in absolute terms and excellent relative to the market when we more than doubled the S&P 500. Despite our recent success (prior to the last six months), such poor performance in the very short term hurts. As a matter of fact, it hurts a lot. Other than attempting to time the market for a very short period of time (which is usually a failing strategy), I will do everything I possibly can (including making more moves) to improve our performance.

Consumer confidence is at a 16 year low. One of the reasons I listen to CNBC 8-10 hours a day is because even though most of what I hear is nonsense, once or twice a day I do hear something useful. Just a few minutes ago; someone on CNBC whom I am familiar with mentioned that historically when consumer confidence is this low, during the following twelve months 90% of the time the stock market does very well. The problem is that in this environment, logic and intelligence takes a back seat to fear. While I have no idea what the stock market will do over the next three months (which regrettably is the time frame at this point in time for the vast majority of people in the stock market), my gut feeling is that because of all the emotion involved, things could get worse before they get better.

I believe that a picture is worth a thousand words. Generally in these letters that I enjoy writing to you and my other clients, I prefer not to go into too many details about what I do with my personal investments. I make general statements such as that I own everything that you own. I will make an exception in this letter.

A few times over the years, I have written that I was buying blue chip stocks during the worst part of the worst bear market since the Great Depression. One of those stocks that I purchased then was General Electric. I sold it in the spring of last year just before the market corrected. Including dividends, I made a profit of 59% over 4 ½ years. Many people consider GE the ultimate blue chip, "safe stock". While GE is still a blue chip stock (at least in most people's opinions), in the short run there is no such thing as a safe stock anymore. What is going on with GE this year epitomizes what is going on in the market this year and why we are doing so poorly. The stock price of GE is down 21 ½ % this year. This is despite the fact that on January 1 they were reasonably priced, had a safe solid dividend and a diverse business that is still holding up ok in a bad economy.

Now on July 1, GE is cheap and has a dividend that is higher than the 10 year Treasury note. I consider GE a safer investment at this price than our dysfunctional government. Please keep in mind that back when I purchased GE in October 2002 when no one wanted to buy anything including GE, if I had waited a year to make my purchase until things looked better, then I would not have made the 59% profit that I did.

That was the past. Now for the present and what I am doing now. I was fortunate enough to recently sell my waterfront co-op apartment, subject to the board's approval. While not divulging the exact proceeds (I may have mentioned it to you), suffice it to say that since I own it free and clear, I will have quite a bit of cash available to invest after the closing. I am investing every dollar of the proceeds into the stock market. I will make my purchases slowly and deliberately, just like I do when my current clients give me new cash or when I get a new client. I believe that actions speak louder than words. I bring this up only to demonstrate that I am not just talking about how this is a great time to put new money to work (like most people who purport to do what I do), but that I am actually practicing what I preach with a significant amount of money by anyone's standards. I am humble enough to acknowledge that just because I am putting a lot of new money to work like I did in the fall of 2002 that it may not be perfect timing. Over the last 23 years that I have been investing on my own, I have made my share of mistakes. Fortunately over that time period, I have been right more often than wrong and I am confident this time around.

The Federal Reserve has stopped lowering short term interest rates. Since the Fed. generally goes too far both when they lower rates and when they raise rates, I consider this a good thing. I don't think they went too far on the down side this time. My biggest issue with the Fed. is that they waited too long to start lowering short term rates. With inflation being the biggest threat in 25 years, if not longer, I just hope that the Fed. doesn't wait too long before they start raising short term rates. In this economy, it would be a bad idea to start now. I hope that the Fed. starts raising rates in the fall because starting too late could be a disaster. If it weren't for the election, I would think that they would start in September but since it is election season, they will most likely wait until November or December. Unless energy prices drop by September (which could happen), waiting that long could be a mistake.

Please give me a call or send me an email if you have any questions for if there is anything that you want to discuss.

Sincerely,

Michael Weinstat, RIA, CPA