

Late Summer Newsletter
August, 2009

“Is History still a Good Guide for Investing?”

As we are all aware, the world continues to navigate through difficult economic and financial times. While we have had difficult periods in the past, it feels like the navigation process this time involves more than just addressing another cyclical dislocation. To the extent that we may be experiencing more of a secular (long term) realignment, than a cyclical (short term) interruption, I wonder whether history is a good guide for investing in the future. Do the old rules about asset allocation, security selection and risk management still apply? Maybe not, now that we are living in an investment world that is incredibly unpredictable and volatile.

So what do you do when traditional asset allocations alone may not be able to deliver the same type of positive returns and risk mitigation that they have in the past? I believe that in today's environment the selection of the specific investment vehicle becomes as important as the choice of asset class. Not all “Large Cap Stocks” or “Investment Grade Bonds”, to pick 2 popular asset classes for example, are the same. Nor can they be expected in today's environment to act in a similar manner as traditional models have assumed. I believe that the ability to select the right stock and the right bond will re-emerge as a critical skill in achieving investment success in the years ahead.

Given what could turn out to be a world dominated by the growth muting effects of continuing de-leveraging by consumers and re-regulation by the government, the stock market in the next few years may trade in a narrow range forcing the successful investor to be more disciplined in taking profits when and if they are available. I foresee a market like the one investors experienced in the 1970's – painfully flat and boring (“structurally fair”), in which investors will have to pick their way through the minefield in a timely fashion in order to be successful.

Finding good stocks and bonds is hard work. Which is why I have decided to form a team here at Oppenheimer with an experienced advisor named Vito Iulo. Vito and I have merged our businesses effective August 1 and will work collaboratively thereafter. Vito has been in the investment business for 55 years and has a tremendous amount of experience, utilizing a wide range of investment vehicles including stocks, bonds, options, and mutual funds.

Vito and I meet every morning to discuss “what's going on out there” and to try to find the best investment ideas we can find for our clients. We are realistic enough in our thinking to recognize that investor confidence in the investment concepts that were once above reproach and which we “grew up with” has been shaken. As a result, we try to be “constructively paranoid” – concerned, in a constructive manner, that something may be going on “out there” that we do not understand. This is how we try to reduce the possibilities of our being caught by surprise.

It's a tough world and likely to remain that way. History may not be a good guide to investment success, as the old rules may no longer apply. Steady income-producing bond and stock investments in companies with strong balance sheets and high dividend yields may very well be the best way to go. Vito and I will be doing everything we can to pick our way through the minefield and find good investment ideas. We believe strongly that collaboration is the right way to go in the current environment. We'll be talking to you soon. All the best for the rest of your summer.

This newsletter was written by Nathaniel S. Prentice, a Financial Advisor with Oppenheimer & Co. Inc. who can be reached at 845/897-8122. His opinions do not necessarily reflect those of the firm. This newsletter is not and is under no circumstances to be construed as an offer to sell or buy any securities. The information set forth herein has been derived from sources believed to be reliable and does not purport to be a complete analysis of market segments discussed. Investing in securities is speculative and entails risk, including potential loss of principal. Opinions expressed herein are subject to change without notice. Additional information is available upon request. Oppenheimer & Co. Inc., nor any of its employees or affiliates, does not provide legal or tax advice. However, your Oppenheimer Financial Advisor will work with clients, their attorneys and their tax professionals to help ensure that all of their needs are met and properly executed.