

American Heritage Securities, Inc.



affiliated with

EGI Financial, Inc.

Registered Investment Advisor

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Extreme Investing: Extreme sports have been evolving for years and there are now many sports with extreme variations. The first that come to my mind are extreme cycling such as Downhill Mountain Biking or Freestyle BMX. Freestyle Skiing might be the best known extreme sport since the beauty of watching crazy people skiing off mountains makes for entertaining programming. Whitewater Canoeing, Motocross (motor-cycling) and Ice Climbing are other well known extreme sports. Although most of these sports are enjoyable to watch, the vast majority of us have no desire to participate.

A similar phenomenon has been evolving in the financial world that might be called **Extreme Investing**. As with sports, there are variations of extreme investing that quickly come to mind such as High-Frequency Trading, Day Trading or Hedge Funds (not all hedge funds—but most). Of course, participants in those examples are *willing* extreme investors but lately those of us who have no desire to participate in extreme investing have been given more of a taste of it than we bargained for through **extreme volatility, extreme valuations and extreme uncertainty** in the marketplace.

Even conservative investors simply trying to put savings or capital to work to achieve reasonable returns have been affected by the extreme volatility, valuations and uncertainty. No statistics are needed to acknowledge the recent extreme **volatility** in the stock market. It has been painful to those owning stocks and that volatility also hurts the overall economy. Volatile commodity prices—especially oil—impact all consumers. Everyone, willing investor or not, is exposed to current extreme **valuations** such as all-time low interest rates and depressed home values. There are many examples of low valuations in the stock market. A recent *Barron's* article cited that airline stocks are at all time low p/e ratios and three of the largest carriers are trading at less than 5 times next year's earnings estimates. Of course **uncertainty** has been a problem for the economy and financial markets since the financial crisis of 2008/2009 but it has been exacerbated in recent months by dysfunctional political leaders bickering over solutions to resolve years of unsustainable spending and overwhelming debt. The most critical source of uncertainty is the ever-expanding European sovereign debt crisis which seems to be nearing a tipping point—with the worst case outcome threatening a massive global financial catastrophe. In the U.S. corporations sit on hordes of cash because uncertainty over the economy, regulations and taxes inhibits them from investing to grow their businesses. All the uncertainty in the world is the primary reason for all the extreme volatility and extreme valuations

Assuming you don't want your investing experience to resemble an out-of-control 90 mile per hour trip down a mountain, how do you deal with this current extreme environment? As with most obstacles in life, the best approach is to try to understand the situation as best as possible and determine an appropriate way to deal with it.

First, as with sports, your mental attitude is critical. Investors must focus on their long-term goals and block out the excessive distractions so prevalent in the daily media blitz. Hopefully, you have already given a lot of thought and consulted with your advisor on your risk parameters and goals and objectives; and your investment strategy is properly designed to meet those parameters, goals and objectives. It is never a good idea to reverse course on investment plans in the midst of a financial crisis. Stay positive and resolute!

Next, consider what the most realistic outcomes of our current problems might be. As difficult as the world's problems are, we are likely to at least muddle through. More likely, viable solutions will be found. Yes, that may mean tough decisions and/or short-term sacrifices but the right solutions will leave us stronger, leaner and meaner for the future. Many of the issues we labor under have been festering for years and it is high time they are addressed. The ugly U.S. debt ceiling debate is a good example. The Congressional fiasco resulted because hard-headed Tea Party types refused to simply authorize more government debt. It is frustrating to see our leaders unable to compromise but the debt and spending problem must be addressed for our long-term viability. Today's crisis environment is more likely to lead to positive resolutions than a financial implosion.

Last, consider the opportunities. For an optimist who understands his/her risk tolerance and has identified their investment strategy, today's Extreme Investing environment provides real opportunity. We believe the most compelling opportunities are in the stock market where many rock-solid corporations continue to generate strong profits and (many) pay dividends that are higher than the ten-year Treasury bond yield. In spite of all the difficulties, our economy is still growing and the global economy offers fantastic long-term growth opportunities. Stock prices are likely to remain volatile for at least a few more months—maybe much longer. Still, stocks of many high quality global growth companies provide opportunities for the composed investor to successfully manage today's Extreme Investing environment.

Best regards,

Ted Ingraham

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