

Lowly Analyst Free Newsletter

Volume 8, Issue7, July 2008

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The Market

Since October the US Stock Market has fallen 14.5%. The newsletter portfolio has fallen 10.3%. Year-to-date through June 30th, the market has fallen 10.1%. Fortunately, the Newsletter portfolio is up 2.3%. We hope that we can continue to have positive returns. In up and down markets we try to do better than the market. Since in the long run the market goes up this will result in higher returns. But on the way to higher returns the market will go down sometimes.

The outlook is not good. Profits were artificially high last year as companies used every accounting gimmick to increase reported earnings. The financial crisis from collateralized debt has not yet run its course. Inflation is raising its ugly head, as oil and food prices rise. As housing prices fall consumers stay in their current houses. As a result furniture and hardware sales also decline, decreasing consumer spending. In addition the lack of credit also decreases spending.

What matters most is not the current decline in the US Stock Market but the fundamental weakening of the US. We have been the world leader in economic strength since the American Revolution. We are now losing leadership in education, science, technology, infrastructure, economic strength, and political institutions.

Asset Classes. For the past month: Small Growth down 6%, Large Growth down -7%, Mid Growth -7%, Mid Value -9%, Micro -9%, Small Value -9%, Large Value -10%.

Sector ETFs: For the past month Agric Cmdts up 15%, Natural Gas 13%, Commodity Index 10%, Oil 10%, Metal & Mining 8%, Healthcare 8%, Oil Equipment 6%, Gold 5%, Silver 4%, Energy 3%, Natural Resources 2%, Swiss Frank 2%, Euro 1%, Basic Matrl -1%, Agribusiness -1%, Steel -2%, Gbl Matrl -3%, Biotech-3%, Intrntl Enrgy -5%, Covered Calls -8%, Cons Gds -9%, Technology -9%, Transportation -9%, International Communication -9%.

Foreign Investing: For the past month: Canada down 5%, Latin America -8%, Japan -8%, Russia -8%, US -8%, Switzerland -8%, United Kingdom -9%, World-US -9%, Emerging Markets -9%, Europe -9%, Pacific-J -9%, Australia -10%, Mexico -10%, Singapore -10%, Brazil -10%, Austria -10%, Malaysia -11%, BRIC -12%, Germany -12%, So Africa -12%, China -13%, India -23%

Investing for Income

1. Introduction

Fixed income securities fluctuate both in price and in dividends. When interest rates go up, fixed income securities decline in value. When interest rates go down, they increase in value, but generate less income.

Current interest rates are a function of the money supply. As the money supply increases interest rates decrease. Long term interest rates depend on the expectation of future interest rates, which in turn depend on inflation expectations.

The volatility and risk increases with the duration of the bond. Longer term bonds are more volatile. It is generally not a good idea to buy Long Term Bonds due to their interest rate sensitivity. Government Bonds are less volatile than Industrial Bonds. Industrial Bonds have a risk of default.

There is a difference between individual bonds and bond funds or ETFs. Individual bonds always pay the amount of interest specified in the indenture, and if they do not default, can be redeemed at full face value at maturity. Bond Mutual Funds dividends and asset value fluctuate, since the fund continually buys and sells bonds.

Unlike Exchange Traded Funds or Mutual Funds, Exchange Traded Notes (ETNs) hold no assets.. They are a promise to pay by the issuing company. The value of the ETN is not a fixed amount, but fluctuates with the value of an index. If the issuing firm goes bankrupt you could loose your money.

Another high yield income investing vehicle are Exchange Traded Partnerships, discussed in the [May newsletter](#), which have their own pros and cons. We will continue this discussion in the next newsletter.

The following sections have some sample securities in various categories. For each security we show the 1 month (1MoRt) and 1 year (12MoRt) return through June 30, 2008. We show only the one year return since the interest rates have fallen substantially and are not comparable to the previous two years. We also include the RiskGrade (RskGrd) for each security. For comparison, the RiskGrade for the total US Stock Market is about 100. Finally we show the 1 year return divided by the RiskGrade (Rt/Risk), multiplied by 100 to scale it. For [Closed-End Funds](#) we also provide the premium of list price over net asset value and the leverage which is the percentage of money the fund borrowed.

2. Money Market

TDAM Money Market Portfolio Pre, [NPLXX](#)

1MoRt	12MoRt	RskGrd	Rt/Risk
0.2%	4%	10	37%

3. Agency Bonds

Fidelity Ginnie Mae, [FGMNX](#)

1MoRt	12MoRt	RskGrd	Rt/Risk
0.3%	8%	24	33%

4. Energy Income

Claymore/SWM Canadian Energy Income, [ENY](#)

1MoRt	12MoRt	RskGrd	Rt/Risk
1.7%	NA	157	NA

5. Inflation Protected Securities

Western Asset/Claymore Inflation-Linked Sec & Inc, [WIA](#)

1MoRt	12MoRt	RskGrd	Rt/Risk	Premium	Leverage
2.6%	16%	38	42%	-9%	28%

6. Intermediate Government Bonds

SPDR Lehman Intermediate Term Treasury, [ITE](#)

1MoRt	12MoRt	RskGrd	Rt/Risk
0.7%	10.1%	27	37%

Vanguard Intermediate-Term Treasury, [VFITX](#)

1MoRt	12MoRt	RskGrd	Rt/Risk
0.8%	10.0%	31	32%

iShares Lehman 3-7 Year Treasury Bond, [IEI](#)

1MoRt	12MoRt	RskGrd	Rt/Risk
0.5%	9.4%	30	31%

Vanguard Intermediate-Term Bond ETF, [BIV](#)

1MoRt	12MoRt	RskGrd	Rt/Risk
0.0%	8.5%	37	23%

SPDR Lehman Aggregate Bond, [LAG](#)

1MoRt	12MoRt	RskGrd	Rt/Risk
0.2%	7.5%	25	30%

iShares Lehman Interm Govt/Credit Bond, [GVI](#)

1MoRt	12MoRt	RskGrd	Rt/Risk
-0.1%	5.5%	25	22%

iShares Lehman MBS Bond, [MBB](#)

1MoRt	12MoRt	RskGrd	Rt/Risk
-0.1%	7.3%	28	26%

7. Long Government Bonds

iShares Lehman 7-10 Year Treasury, [IEF](#)

1MoRt	12MoRt	RskGrd	Rt/Risk
0.8%	11.3%	37	31%

SPDR Lehman Long Term Treasury, [TLO](#)

1MoRt	12MoRt	RskGrd	Rt/Risk
1.2%	9.9%	48	21%

iShares Lehman 10-20 Year Treasury, [TLH](#)

1MoRt	12MoRt	RskGrd	Rt/Risk
1.2%	9.9%	45	22%

iShares Lehman 20+ Year Treasury Bond, [TLT](#)

1MoRt	12MoRt	RskGrd	Rt/Risk
2.7%	9.2%	59	16%

Vanguard Long-Term Bond ETF, [BLV](#)

1MoRt	12MoRt	RskGrd	Rt/Risk
1.2%	7.6%	52	15%

8. Market Neutral

DWS Disciplined Market Neutral Instl, [DDMIX](#)

1MoRt	12MoRt	RskGrd	Rt/Risk
3.4%	2.0%	NA	NA

9. Municipal Bonds

Western Asset Municipal High Income Fund, [MHF](#)

1MoRt	12MoRt	RskGrd	Rt/Risk	Premium	Leverage
2.6%	15.8%	74	21%	-8.9%	28%

10. Short Term Bonds

Vanguard Short-Term Bond ETF, [BSV](#)

1MoRt	12MoRt	RskGrd	Rt/Risk
0.2%	7.5%	18	42%

iShares Lehman 1-3 Year Credit Bond, [CSJ](#)

1MoRt	12MoRt	RskGrd	Rt/Risk
0.0%	3.2%	15	22%

11. Ultrashort

SPDR Lehman 1-3 Month T-Bill, [BIL](#)

1MoRt	12MoRt	RskGrd	Rt/Risk
0.2%	3.1%	4	78%

12. Utilities

Utilities HOLDRs, [UTH](#)

1MoRt	12MoRt	RskGrd	Rt/Risk
0.1%	10.3%	82	13%

13. Price Volatility

The following graphs show the price variation for each of the securities over the past year. The securities are separated into different price groups, to better show the volatility.

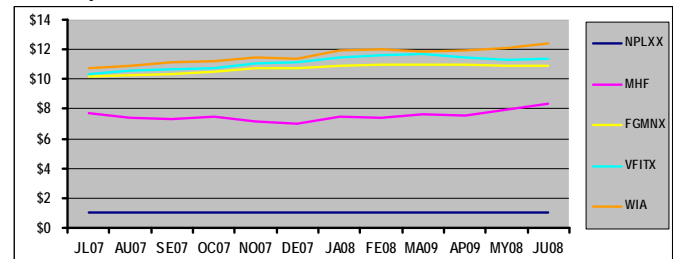


Figure 1 Low Cost Securities

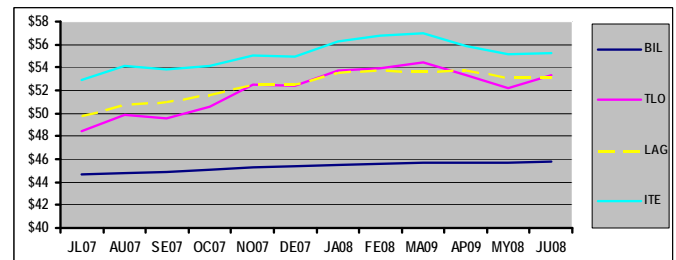


Figure 2 Moderately Priced Securities

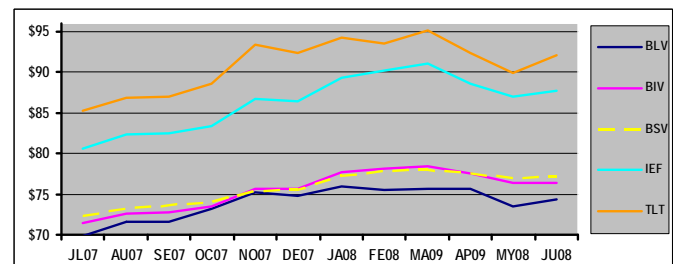


Figure 3 Higher Priced Securities

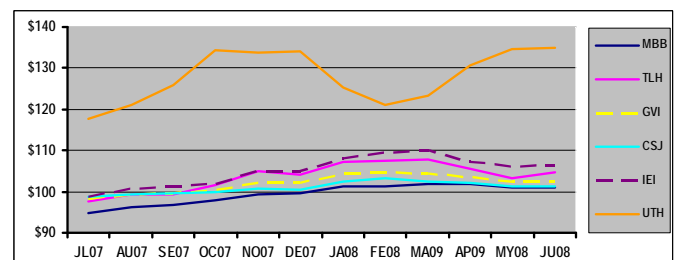


Figure 4 Premium Priced Securities