EMAIL BLAST
An Ongoing Dialogue from
The Delta Group

REVENGE OF THE 1% LOAN (Part VII) Oct. 22, 2008
The October Misery

OK, so it looks like a mere couple trillion greenbacks injected into our financial system has saved us from ourselves. Re-living the 1930's, although nostalgic, would've really put a dent in our retirement aspirations. Market volatility has lessened from ~1,000 point to ~500 points swings in a daily session. Panic and margin call related selling has diminished, yet remains a key mover of stock prices.

The market is now focused on the depth and duration of the recession. September's credit freeze spooked consumers and business' alike, with retail sales and industrial production falling precipitously. Thankfully, this week, credit spreads have fallen slightly, perhaps signaling the beginning of the end to the banking crisis. As the economy weakens, unemployment, currently at 6% of the workforce, is expected to rise to the 7%-8% level.

With world stock markets down 40% plus or minus, the hope for a quick rebound circa 1987 is probably just that. Hope. he housing market has at least another year to sort itself out, to clear out the inventory of unsold and foreclosed homes. Consumers, fearful of employment uncertainty, will scale back spending. In fact, last month was the first in 10 years that credit card debt was paid down!

Investors gauging the economic malaise will pinball the stock market back and forth between 8,000 and 10,000 on the Dow. Daily up and downdrafts of 5% will continue with newsworthy events. Longer term, stability in the stock market could come from higher dividend yields that have appeared with the sell off. Since dividends are (mostly) constant, falling stock prices raise the yield that their quarterly income stream provides. A company whose pre-sell off yield was 2.5%, now sports a yield of 4% after a 37% decline. Higher yields offer a measure of value to timid investors.

The yields on common stocks haven't been at this level since the early 80's. This too was a lousy and nauseous time to be in the market. Significantly though, it was a great starting point for long term investment. Our bubble decade of tech stocks, real estate and commodities has gotten us nowhere, as our collective greed has hit the reset button and taken us back ten years.

From the bubble rubble that's subtracted 10 years from the stock market, we actually have been propelled backwards 50 years, when investing for income was the primary objective. The decline in stock and bond values has raised yields to levels that offer decent returns, aside from the potential for capital appreciation, Higher yields on common stock (4% +/-), in addition to yields approaching 5% on muni's and 10% on corporate bonds buffer the capital losses that we've suffered. That is, although our investment capital has declined, our ability to generate cash from higher yields has increased.

In any event, history being the guide, patience should reward us.

Eric Dahl
THE DELTA GROUP
Investment & Financial Advisory Services
Oak Tree Securities
5050 El Camino, Ste 100, Los Altos, CA 94022
650-988-0490