David Dietze's

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SECOND QUARTER 2013

"While short term risks abound, longer term we are bullish: Relative to fixed income stocks are cheap with the S&P 500 yield exceeding the benchmark 10 year Treasury, price to earnings ratios are still reasonable, the economy seems to be recovering, and central bank stimulus is everywhere."

David Dietze, JD, CFA, CFP
CNBC, March 12, 2013

SPECIAL IN THIS ISSUE

Markets Break Records in Q1: Now What?

By David G. Dietze, JD, CFA, CFP™

Investors approached 2013 fearing the fallout from the much ballyhooed Fiscal Cliff, that toxic cocktail of $620 billion in spending cuts and tax hikes poised to send the economy into a tailspin absent legislative action.

Lawmakers, concerned about imposing austerity on a weak economy despite the salutary effects of budgetary restraint, maintained most of the Bush tax cuts. Investors cheered, sending the Dow up 5.9% in January, the best first month since 1994.

Despite the postponed sequestration taking effect in March and Cyprus' banking crisis underscoring Europe's problems, investors' embrace of stocks continued throughout the quarter.

The Dow notched an all-time high on March 5, surpassing its previous peak of 14,198 in October, 2007. The broader S&P, weighed down by weakness in **Apple**, its largest component, finally joined the Dow in record territory on the very last day of the quarter.

"The Dow's 11.9% total return was its best first quarter since 1998"

The Dow's 11.9% total return was its best first quarter since 1998. The S&P 500 advanced 10.6%, including dividends, while tech stock weakness muted the Nasdaq's total return to 8.2%.

Outlook

The long term outlook for stocks is excellent. Valuations remain reasonable, interest rates low, inflation quiescent. Our economy is improving and companies are cash rich, poised to hike dividends and buy back their stock.

Near term, several indicators are flashing caution, including an extremely low VIX, or fear indicator, weakness in cyclical stocks, and uncertainty as to the path of fiscal policy.

Bonds and cash continue to look relatively unappetizing. A rising interest rate environment could inflict sizeable losses on certain types of fixed income, including most investments seen as yield plays.

Federal Reserve: When Does it Take the Punch Bowl Away?

A determined Ben Bernanke, head of the Federal Reserve, adroitly saved the economy from a financial crisis following the nationwide housing bubble. By engineering a decline in short term interest rates to near zero and spearheading a program that now buys $85 billion of longer dated debt, including mortgages, corporations and

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individuals have cut borrowing costs. He's incented investors to shift into riskier and higher yielding assets.

The good news is that this program is set to continue until unemployment declines from the current 7.7% rate to 6.5%, provided that the inflation outlook does not exceed 2.5%. That suggests that the current market upswing has significant running room.

One risk is that inflation heats up much faster than forecast. Indeed, February's CPI was 0.7% which, if annualized, is much higher than the Federal Reserve will tolerate.

Moreover, stocks anticipate economic data, probably far faster than the Federal Reserve. By the time the Federal Reserve announces a policy change, markets may have already reacted.

Investors should not be complacent simply because the Federal Reserve has announced no deviation from its easy money policies.

Valuations: Attractive But Not Cheap

Based on such traditional metrics as price to earnings ratios, stocks at 15.4 times reported profits are not overpriced.

Of course, markets are far pricier than they were at the market's nadir in March of 2009, when the price to earnings ratio fell to about 13.9 and dividend yields briefly exceeded 4%. The market's 132% romp in the 4 years since then now requires investors to be far more selective.

"The long term outlook for stocks is excellent; valuations remain reasonable"

Economy: Sub-Par Rebound is Nevertheless a Rebound

While highly muted relative to historical comebacks from a recession, the US economy appears to be improving. Despite a slightly negative GDP print for 2012's final quarter, a higher payroll tax, and the bite of the sequester, first time unemployment claims recently dropped to five year lows and February saw a surprising 236K job creation tally.

"Bonds and cash continue to look relatively unappetizing"

The latest statistics leave little doubt that the housing downturn has all but ended. Indeed, home prices jumped 8.1% in 20 major cities in the last 12 months.

Corporations: Weak Confidence Leads to Big Returns for Shareholders

Uncertainty in the board room is causing managers to shelve expansion plans, a big barrier to a more rapid economic renaissance. But, the discretionary cash flows resulting from record high margins due in part to brutal cost cuttings have left companies with big piles of cash. They are returning that cash to shareholders in the form of dividend hikes and stock buybacks, much to the benefit of investors.

The return of cash to shareholders, particularly in the form of dividends, is helping make stocks the new bonds for many investors.

Near Term Headwinds Breed Caution

Wall Street watches Washington warily, and celebrated in Q1 as Washington avoided the Fiscal Cliff. Washington watches Wall Street, too; as the markets and economy climb higher, Washington may be more willing to accept near term austerity to achieve longer term budgetary objectives, and that could prove a headwind.

The agenda includes revisiting the debt ceiling in May and the expiration of the continuing budget resolution September 30. An inability to come to terms or coming to terms perceived as excessive austerity could create volatility.

Higher interest rates could also pose problems. The 10 year Treasury finished the quarter at 1.85%, virtually flat for the quarter but up from the low of 1.38% last summer. With this yield remaining below the S&P 500's dividend yield of 2.16%, a rare occurrence, these low rates provide a tail wind to the market and incentive to rotate from bonds into stocks.

"Near term, several indicators are flashing caution, including an extremely low VIX, or fear indicator"

Rates could climb quite quickly. Just 23 months ago the 10 year Treasury was at 3.67%. Higher interest rates are never a positive, but can be better rationalized to the extent due to greater loan demand as opposed to inflationary pressures.

Investment Strategy

A stay the course strategy was vindicated in the first quarter. Even Warren Buffett failed to pick the bottom of the last down turn as reflected by his too early forays into **General Electric** and **Goldman Sachs**. Don't expect to call the twists and turns of the next 12 months. And there will be many.

Rebalance into shorter duration high quality fixed income to the extent the recent rally has left you overexposed to stocks. Reaching for just a little more yield at the price of substantial increases in maturity or credit risk doesn't make sense. Indeed, be wary of all investments labeled yield plays.

Market dips can be profitably met with buying. Don't chase consumer staples names, which led the first quarter rally. Paying 20 times earnings for stocks growing at mid-single digit percentage rates doesn't make sense.

For a fuller version of this article log on to http://www.ptview.com/files/fiscal%20cliff%20article.pdf

E-State Planning in the Digital Age

By Claire E. Toth, JD, MLT, CFP™

If a bus were to hit you tomorrow, would your loved ones be able to access your Facebook page, your iTunes account, your frequent flyer miles? Could your executor easily determine which paperless bills, automatic payment plans, and electronic transfers you have established? How would your family find all those digital photos? Do

you know what you want to have happen to your online presence—in blogs, message boards, multi-player games, and the like—after your death? Chances are, the answers to those questions are no, no, and no. However, as more of our lives are lived online, so too will more of our estate planning and administration have to take that into account.

"As more of our lives are lived online, so too will more of our estate planning and administration have to take that into account."

In traditional estate planning, we pretty much know what the rules are. Who is entitled to most of our assets is determined by our wills, by holding assets jointly, or (for retirement plans) by the beneficiary designations. Not so with the Internet. Online, what happens after death is most often governed by those user agreements almost no one reads—until it's too late. For instance, some airlines allow mileage to be transferred at death, some do not, and most have no specific rules. iTunes does not allow an account to be inherited, but does allow the content to be downloaded onto CDs. In a truly nightmare scenario, at least two families are engaged in well-publicized lawsuits against Facebook, which has denied them access to the accounts of their deceased adult children. Only five states—not including New Jersey or New York—have laws requiring this sort of access.

With no coherent treatment of digital assets, what are you—or your executor—to do? Legal experts have generally agreed on a set of steps, many of which contradict the received wisdom about how to conduct yourself online—essentially, you need a thorough paper trail of your online activity.

"Online, what happens after death is most often governed by those user agreements almost no one reads."

Make an Inventory. Even before you begin thinking about online assets, begin with your hardware. You likely have a combination of desktops, laptops, tablets, smartphones, and other devices, all with important information on them. What do you store where, and how do you access it?

From there, move onto your software and files. How do you store your work product? What programs and documents are password-protected? Where are your photographs, music files, and other content that would matter to your heirs?

Now begin with your Internet presence. Are you out there in the blogosphere? Are you on Twitter, Tumblr, Instagram, Pinterest, some other online forum? How are you known, and what would you want to happen to your online presence if you died? Would you want someone to continue it for you, to announce your passing, or would you prefer simply to disappear?

Finally, list your online accounts and their passwords. Make special note of any bills or recurring expenses that are autopaid. If there is no physical paper trail for an account or a payment schedule, your executor may not know it exists. Include all of

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Claire E. Toth, JD, MLT, CFP™

Claire E. Toth, as Vice President of Point View Wealth Management, Inc., provides our clients with tax, financial, and estate planning expertise, enabling the firm to offer fully integrated asset management and financial planning services. She works with clients on issues ranging from financial planning to estate planning.

Previously, Ms. Toth was Of Counsel to the law firm of Herold and Haines, P.A., in Warren, New Jersey, where her practice focused on tax and business planning for closely held businesses and their owners. Before joining Herold and Haines, Ms. Toth was with the IRS Chief Counsel in Washington.

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Junk Bonds: Much Risk, Little Reward

By David G. Dietze, JD, CFA, CFP™

High yield bonds (a/k/a "junk bonds") are a bad bet today. Prices are too high, risks ignored. That's a poor risk/reward scenario.

Junk bonds are over loved. A record $32 billion was invested in this asset class last year. In the process yields dropped to their lowest levels ever, below 6%. The appeal is obvious. Burned by the great bear market of 2008, when the S&P 500 dropped 37%, many investors are determined to avoid any exposure to stocks.

Problem was, and is, that our Federal Reserve, determined to jump start our economy and reduce unemployment, has pushed interest rates down to the lowest levels seen since World War II. Investors have responded by gravitating to bonds offering the fattest yields.

This extreme inflow into junk bonds has now alarmed policy makers, with a Federal Reserve governor suggesting this is laying the ground work for systemic risk. Put another way, junk bonds may be a bubble waiting to burst.

"This extreme inflow into junk bonds has now alarmed policy makers"

Our advice is to avoid this asset class. The expected returns are very low compared to the current lofty prices. Yet, investors can expect stock-like volatility from these securities.

Yields Have Never Been Lower

The yield on the average junk bond crashed through 6% in January, to about 5.8%, making them "high yield" only on a relative basis. Remember, at the nadir of the 2008 bear market, junk bond yields soared to 22%. While no one is predicting that to happen again anytime soon, the value of high yield bonds could drop by 4% or more for every 1% tick up in interest rates.

Apologists for the very low junk bond yields point to Treasuries as justification. Right now junk yields 4% more than the 10 year Treasury. Unfortunately, that's much less than the usual 6% spread.

Bottom line, should the long forecast rise in Treasury yields occur, plus spreads

widen to more normal ones, junk bond investors could be walloped.

Many Are Unaware of the Junk Bond Risk in Their Portfolios

The problem is compounded because many of these volatile high yield bonds and bond funds are categorized as "fixed income" on account statements.

True, junk bonds do pay out income, but the similarity with conservative fixed income stops there. Most investors associate fixed income with the portion of their portfolio that will "zig" when stocks "zag". However, junk bonds are more correlated with equities' movements than to traditional fixed income's.

"High yield bonds could drop by 4% or more for every 1% tick up in interest rates"

Consider 2008. The S&P declined 37% in one of the worst one year performances since the Great Depression. Did bonds offset the loss? Sure, if you were in high quality bonds; the Barclays Aggregate gained 3.7% in total return.

However, if you thought your other fixed income holdings would do the same just because they were called fixed income, you were very disappointed. High yield bonds plummeted 26.5% that year, even including their income.

Bottom line: Always consider junk bonds as equity, not fixed income, when analyzing your asset allocation.

The Inevitable Popping of the Bond Bubble Will Snare Junk Bonds, Too

Fixed income has had a great bull market for 30 years. Back in 1981, 10 year Treasuries yielded double digits. Over the next three decades rates plummeted, hitting a post World War II low of 1.38% last summer.

Bond enthusiasm has accelerated in the last three years. Part of the interest was spurred by the poor performance of equities since the start of the century. It was further fueled by our Federal Reserve aggressively pushing interest rates down and bond prices up. That's creating a tail wind to fixed income performance that's nearly impossible to resist.

"Junk bonds are more correlated with equities' movements than to traditional fixed income's"

However, a cursory study of financial market history indicates that markets move in two ways. Reversion to the mean is inevitable. That spells trouble for fixed income.

Junk bonds have been along for the ride, particularly in the last three years. While the higher yields and shorter maturities may provide some resiliency, investors should be prepared for bad news for bonds generally to envelope junk bonds as well.

Default Risk Has Not Been Priced In

Why do high yield bonds have higher yields? Because there's a greater risk that the borrower fails to repay.

Historically, about 5% of high yield bonds default. However, recoveries in default average nearly 40% of principal value, for an overall loss of about 3%.

Given that the premium on junk bonds today is a low 4%, it suggests the market isn't pricing in a normal default experience, but is way too optimistic. That doesn't sound right given the state of the economy: The US GDP was negative last quarter, and unemployment edged up in January to 7.9%, by all accounts unsatisfactory.

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Can We Talk? Adult Children, Their Parents, and Money

By Claire E. Toth, JD, MLT, CFP™

Think the most awkward parent-child conversation possible involves the birds and the bees? You haven't seen anything yet. As Boomer children and their Senior parents approach the inevitable transfer of financial responsibility down a generation, both sides are grappling with how—and even whether—to discuss it. Difficulties on both sides abound.

Seniors, children of the Great Depression, know the value of a dollar and have been managing their own finances for decades. They're understandably reluctant to cede control and may even worry that their Boomer children value them only for their net worth. Basically, it's none of their damn business.

Boomers are afraid of what they don't know. Can their parents afford their medical care? Are the bills being paid? Is someone trying to scam their parents? Recent news reports highlight these concerns. A New York Times article states that on average, Seniors carry more credit card debt than those under age 50 — and that medical costs are largely responsible for that debt. Studies show that among Seniors, financial decision making, like driving ability, declines about two percent per year. We've all heard stories about an elderly widow or widower being swindled by an engaging con artist.

> *"Seniors carry more credit card debt than those under age 50."*

So, where to begin and what to say? No one right answer exists; there are only approaches you might want to try.

In a perfect world, adult children can begin by expressing concern and compassion; their parents respond by producing financial records. A happy resolution results. The other ninety nine percent of us may need more than that.

Show and Tell is one approach. Children can begin a conversion with, "We just had our estate plan redone and our attorney said the last round of tax law changes means everyone should take a fresh look at their wills. When was yours last updated?" "We've been talking to our financial planner about paying for long term care. I wouldn't want my children to have to support me. What provisions do you have?" We're socialized to respond to shared information by sharing information, and this can show concern rather than a desire to take over.

> *"A third party can defuse much of the emotion from the situation."*

If Boomers don't want to share personal information (or haven't done their own planning!), they can start by talking about articles or books they're read. Perhaps a family friend can serve as an object lesson — "When Jenny's mom had a stroke, no one knew what her wishes were for life support. I'd hate to be put in the position of having to make that decision without knowing what you want."

Another tactic is to bring in outsiders. If the Seniors have a trusted advisor—an attorney, planner, or accountant—consider asking that advisor to facilitate an inter-generational meeting. You may need to pay for an hour or two of that person's time, but a third party can defuse much of the emotion from the situation.

Before the family conversations begin, both sides should have some understanding of what information they want shared. In general, Boomers want more detail than their parents plan to provide. This suggests that Boomers should know in advance what topics they want to cover and be prepared for multiple conversations. Here are the most common areas of concern:

Estate Planning: We all need the basics—will (and perhaps a revocable trust), power of attorney, and medical directives. An adult child, rather than an aging spouse, may be best suited to hold the power of attorney. Boomers should request this, citing their ability to perform the necessary legwork to manage everything. If a Boomer is named on the power of attorney or medical directive, he or she should have a copy of that document.

Finances: Boomers want to know where their parents' money is, at least to monitor it and perhaps to help manage it. Even if the Senior doesn't want the Boomer listed on an account, he may not object to the Boomer receiving copies of statements or having online oversight. A Boomer named in a power of attorney can use that document to gain that access. Boomers can provide their parents a real service here, helping them to sort through the tax preparation material or insurance paperwork.

> *"Boomers want more detail than their parents plan to provide."*

Health Care: This one is near and dear to most Seniors and may be the best starting point: "Do you want to stay in your own home at all costs, or would you consider moving to a continuing care retirement facility?" "Have you thought about what you want to happen if you cannot care for yourself?" The answers may surprise you, but you need to ask the questions.

Getting started is the hardest part. Most families are relieved to begin these conversations and report being glad they happened. Bear in mind that this is a process, not a transaction. This will likely be a continuing dialogue, and don't expect to get everything right the first time. Start with where you can agree — we all want what's best for Mom and Dad — and keep working at it. Just remember — in a couple of decades, Boomers will be on the other side of the conversation.

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Dow Soars to New Highs: Should You Insure Your Gains with Gold?

By David G. Dietze, JD, CFA, CFP™

The champagne was popping last week as the Dow set a new all-time record, eclipsing the one set in October, 2007. The buy and hold crowd ultimately prevailed, but it was an eventful journey.

From October, 2007 to March of 2009, the Dow lost over half its value, dropping from 14,164 to just 6547, as the subprime crisis morphed into a near full blown breakdown of our financial system. Amid fears of bank nationalization, unemployment soared to over 10%, producing a downturn not seen since the Great Depression.

Pushing back against the 2008 financial crisis has been unprecedented Federal Reserve stimulus: Short term rates have been pushed down to near 0%, while our central bank is buying longer

"We urge investors to hedge their portfolio by devoting a small percentage of their assets to gold"

dated paper at the rate of $85 billion per month, an amount equal to 80% of new debt issued by our government. Our Federal Reserve has vowed to maintain such purchases until the unemployment rate declines to 6.5%, so long as the "inflation outlook" doesn't exceed 2.5% annually.

In the meantime, fiscal stimulus has been abundant. Annual spending deficits have topped $1 billion for the last four years.

Our economy has responded, helping to justify the stock market rise. February unemployment data showed the lowest jobless rate in five years, with over 200,000 new jobs created. 2012 saw the strongest housing market – the Achilles heel of the downturn - since 2006 as prices in the 20 largest metro areas advanced 6.8%.

Corporations are in fine shape, with profits margins at all-time highs and cash on the books at record levels. Dividend hikes and stock buybacks are robust, as companies plan to pay out at least $300 billion in dividends this year, topping last year's $282 billion; companies announced in February plans to buy

back $118 billion of their own shares, the largest monthly tally since 1985.

Most analysts see stocks very reasonably valued, even cheap relative to fixed income. Stock dividends are now greater than the yield on the 10 year US Treasury (2.14% yield on the S&P 500 versus 2.05% on the 10 year Treasury), which is rare. Dividends tend to grow over time, on average 6% a year, so it's hard to not bet in favor of stocks for a 10 year time horizon.

So, with traditional stocks starting to reward investors, why is now the time they should consider gold?

Bottom Line

We are constructive on the market going forward but nevertheless urge investors to hedge their portfolio by devoting a small percentage of their assets to gold, namely gold stocks.

"Gold has historically served as a store of value over the centuries"

Although gold is difficult to price, it has historically served as a store of value over the centuries. Inflationary pressures will ultimately result in a higher gold price.

The cheapest way to participate in gold is via gold stocks, as an anomalous recent disconnect between the prices of gold and gold stocks has left the latter extremely attractive.

Gold is an Attractive Hedge

Gold is controversial. Such luminaries as Warren Buffett have scoffed at the metal, arguing that it's unproductive. Unlike farmland, which can grow crops, or companies, which can generate revenues, gold has no earnings nor dividends.

Indeed, that makes gold extremely difficult to value. Stocks can be measured by their earnings, using the famous price to earnings ratio. By looking at the income spun off to stockholders in the form of dividends and earnings, investors can compare a stock investment with say the rent from real estate or interest from a bond.

"The cheapest way to participate in gold is via gold stocks"

We do know the yellow metal's relative value is much improved over the last 18 months. Dropping from its high of $1,921 in August, 2011 to the current $1,582 at least gives you the comfort that it's a better relative value by the nearly 20% discount.

There is no sign that gold's historic role as a store of value is in any diminished. Nor has fundamental interest declined by long term holders. Russia is said to be stocking up, while Germany recently insisted that some of its holdings be repatriated.

"Gold has no earnings nor dividends making it extremely difficult to value"

Recent gold price weakness may have been based on short term factors. For example, investors are spooked by the death cross (a technical short term pattern triggered when gold's 50 day moving average price crosses underneath its 200 day moving average). However, fundamental demand, not chart patterns, will ultimately determine gold prices.

The smart money (hedge funds) are said to have liquidated heavily in Q4. But, the smart money can also move back in very quickly, and is very short term oriented.

There's no end in sight to central bank money printing, with Japan's latest exhortation to its central bank to print more the latest example. While the

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your email accounts in this list.

Creating and maintaining this inventory flies in the face of everything you have been told about Internet security. It requires you to write down (and update) every password, user name, and so forth. Keep this document safe but accessible, with your other important papers. Without this sort of inventory, your survivors will be forced to re-create your online life with no guidance from you. They'd miss something important.

"If there is no physical paper trail for an account or a payment schedule, your executor may not know it exists."

Choose the Right Person. Your executor—who presumably understands your personal situation and your wishes, plus has some financial savvy—may not be the right person to deal with your electronic legacy. Just as your executor turns to legal or business experts for help, it's appropriate for your executor to request assistance with the online portion of your estate. This can be an informal letter of instruction, or even a formal appointment in your will—much as a published author might name a literary executor.

Your online executor should have access both to your online life and to instructions for what to do with it—this is where your inventory document is critical. You should both be aware that different sites have different rules about post-mortem access. As noted above, Facebook refuses to provide any. Other web sites are all over the lot. In a perfect world, you would read through those user agreements, particularly for rewards accounts, so you know how to transfer them.

Technically speaking, it may be illegal for someone to log onto a web site as you after your death. However, that could be the only realistic alternative to retrieve information or let others know of your passing.

If You Are the Executor. Should you find yourself in the role of someone else's online executor, get any technical help you may need. Aggregate as much online information as you can. Along the way, change passwords and remove credit card information from shopping accounts (but do not close the credit cards right away). Consider backing everything up before making major changes or deletions, so you can always return to where you started.

Your first goal is to get a sense of the decedent's online presence and then what should be done with it. Only after you (and the heirs) have made those decisions should you begin closing accounts and shutting down web sites. Err on the side of holding onto things, at least in the short to medium term. Years from now, family members may be very glad for that flashdrive holding all the backup information.

"Your online executor should have access both to your online life and to instructions for what to do with it."

Does all this sound too complicated? Digital afterlife services exist, to consolidate and store your digital information and to make certain appropriate people have access to them after your death. Naturally, they cost money. More important, there is no long-term track record—it's a brave new world, after all. So if you do choose to use a digital storage service, at least for now, maintain a paper backup.

Junk Bonds: Much Risk, Little Reward.... *continued from page 4*

Look at it another way. The current interest rate on junk bonds is 6%. Net out the average amount lost due to defaults and you get a figure 3% less, or just 3%. Given that you can get 2% on the 10 year Treasury, is a meager premium of just 1% worth a risk of the 26.5% loss seen in 2008?

Rising Interest Rate Risk Not Priced In

One of the biggest risks bond investors face is rising interest rates. While the calculations can be complex, the threat is easy to fathom. Bottom line, for every 1% uptick in interest rates in a year, expect junk bonds to fall 4% not including income.

The real problem is that interest rates were some 3% higher as recently as 2007. It does not seem that junk bonds would prove an effective hedge, much less a profitable investment, in a rising interest rate environment.

Inflation Risk Not Priced In

The latest inflation statistics indicate that our dollar is losing value at about 2% annually. However, that's at the low end of historical experience. Over the last 50 years, inflation has averaged 3.4% annually.

"Consider junk bonds as equity, not fixed income, when analyzing your asset allocation"

If you subtract the historical default loss experience of 3% from junk's current 6% interest rate you see that high yielders are really not high enough yielding to overcome historical inflation.

Given the $16.5 trillion of debt now built up by our Government and our

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Dow Soars to New Highs: Should You Insure Your Gains with Gold?…continued from page 6

G20 paid lip service to being against currency wars, it refused to call out Japan specifically.

In sum, gold is an excellent insurance against the inevitable depreciation of paper currencies. While it's impossible to tell if the current gold price weakness will continue, purchases now are nearly 20% cheaper than a recent quote.

Gold Stocks: It's Cheaper to Prospect on Wall Street

Gold stocks have plummeted during the recent gold price malaise. For example, over the last 12 months, the S&P 500 is up 13%, gold the metal is down 7%, while RING, an exchange traded fund of global gold miners, is down 33%.

"Fundamental demand, not chart patterns, will ultimately determine gold prices"

Over the last five years, the gold versus gold mining stocks disconnect is amazing, with gold itself up 60% but the XAU (an index of 16 widely traded gold stocks) down nearly 35%. As a result, it's cheaper to prospect on Wall Street than in the traditional mines!

Indeed, the disparity between the value of gold stocks and the metal itself has by many accounts never been wider, near the level last seen in 1999 when gold was wrapping up a long term bear market. Two of the biggest producers, **Newmont Mining (NEM)** and **Barrick Gold (ABX)** are now trading at less than 60% of their reserves' valuations, even including extraction and time value of money costs.

Gold mining stocks offer other advantages. Many pay dividends, unlike direct metal ownership. Second, gold metal investments, even investments in exchange traded funds holding gold, do not qualify for the favorable tax rates applicable to long term capital gains from stocks and most stock dividends.

"There's no end in sight to central bank money printing"

To mitigate the risk of company specific issues buy a basket of gold stocks, like a gold stock mutual fund. You could also buy into companies that have very diversified operations or that operate in countries considered less risky.

Bottom line, we think you could make money in gold stocks without a significant uptick in the metal's price, and of course a big boost in the price of gold could result in a home run for gold stock holders.

For a fuller version of this article log on to http://www.ptview.com/files/gold%20 article.pdf

Junk Bonds: Much Risk, Little Reward…continued from page 7

central bank's current practice of buying 80% of new Government debt issuance with mere bookkeeping entries, it does not require a lot of imagination to envision an inflationary environment far more severe than the historical average. Unfortunately, junk bonds won't be an effective hedge.

Junk Bonds Sport No Win Call Provisions

Investors often overestimate the expected return on their junk bonds because they fail to estimate the impact of the issuer's right to call the bonds before maturity. When, as now, most bonds trade at a premium to par, or the redemption price, investors must subtract the amount of the premium when calculating the expected return.

Junk bonds today frequently trade at a 5% premium to the redemption price. The period before the bond can be called is frequently five years. An investor holding a bond trading at 105 with just 2.5 years before the call date needs to subtract 2% annually from what appears to be the yield to compensate for the issuer's likely call of the bond to refinance at today's lower rates.

For a fuller version of this article log on to http://www.ptview.com/files/03%20 junk%20bond%20article.pdf

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