

# Schultz Financial Mgmt Corp - Investment Commentary

## Volume 3

**1/10/2009**

**Dear Investors,**

The month of December which seasonally tends to be good for stocks, gave us a welcomed bounce after three disastrous months. The year ended with a nice Santa Claus Rally which normally starts with five days left in the trading year and goes to the second day of the New Year. However the rally ended abruptly as stocks fell hard for the second time in three sessions on Friday, January 9th after an ugly jobs report. Consequently, the six week market up-trend is now in danger of giving way.

For the year 2008, the market rebound in December lifted the total return of the S&P 500 index to -37% for the year after being down as much as 45% on November 21st. International stocks fared worse with a -43% return for the year.

### **Our Investment Styles:**

#### *Core - Dividend Income Stocks:*

Our Dividend Income Stock strategy is a core basket of dividend paying value stocks and is managed with the intention of staying fully invested through market cycles. We mostly avoided financial stocks in 2008 and as a result, outperformed the Dow Jones Industrial Average by about 5%. The average yield of the 20 stocks we currently own is 3.3%. We are heavily weighted in consumer staples (25%) and health care (25%) with the remaining portion split among several other sectors. According to Valuengine.com, health care stocks are the most undervalued sector.

#### *Trend Following Stocks:*

The bear market of 2000-2002 taught us that buying and holding stocks is a failing strategy, and that broad diversification in stocks is not adequate for managing stock market risk. The bear market of 2008 proved it to us. Our trend following stock strategies are intended to preserve capital during severe declines, but the extreme market volatility caused us to experience some whipsaw losses that eroded returns. Nevertheless, the decline in our trend following strategies were less than half that of the overall market.

As I mentioned last month, because of the extreme volatility in the stock markets and potential whipsaws that may occur, I am taking a more conservative approach to investing in stocks in our trend following strategies. Currently our trend following strategies are about 35% invested in stocks. What's new however, is that we are now also investing in bond ETFs and bond CEFs (closed-end funds) and bond mutual funds with a large portion of the remaining balance. This will enable us to capitalize on the current up-trend in bonds and to earn their attractive dividends. Of course, these bond positions are temporary trend following positions and will be sold when either the trend changes or it's time to invest more heavily in stocks. Our objective

is still to capture the upside potential in stocks over the long term, but with an acceptable level of risk.

**Our Current Outlook:**

Since investors in stocks typically expect to earn an average total return of 10% (with 2-3% coming from dividends), it would seem that high yield corporate bonds offer much more of a compelling value for investors and therefore I don't expect an meaningful gains in stock until we see lower rated corporate bonds yields come down considerably.

Please give me a call if you have questions or comments about this investment commentary or if you would like to discuss your investment allocations.

Sincerely,

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