Investment Tips

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We have certainly been in a difficult stock market. Even so, "hanging in there" has been the right course over the last three months. In my opinion, this will be the correct play for the balance of 2008.

Lower oil prices have been helped considerably. The approximate twenty percent decline from their highs comes as a pleasant surprise to me. The silent decline in our consumption has certainly helped. However, the hope that our government may do something about it has made a huge difference. Just the thought of us doing something right about oil scares the daylights out of world markets. Remember that we have more oil than any of our foreign sources. Our mishandling of our advantaged position ranks as a classic series of political bungling. Just think about the situation had we permitted drilling in our ANWR over ten years ago. A presidential veto killed this action in the mid 90's. In summation, things may be better from a regulatory standpoint. This can only help alleviate a problem that for the present, and at least the next decade, can only be solved by more drilling and increased refinery capacity. The other alternatives, especially nuclear power, bode well for the future. Wind should not be underrated, but only as another help towards a demand that is far greater than anything that wind can ever produce. In short, oil and natural gas stocks should remain in your portfolios.

How about the financials? I get this question regularly. My opinion is that some buying makes sense because of the low multiples, good dividends, and favorable price versus book value. My recommendation is to stay with banks, not the big brokerage firms.

The sub-prime mortgage problem continues to disturb our economy. Hopefully, we are working towards an end to this situation. My feeling is that it will be behind us by mid 2009. The big concern is that steps must be taken to keep this from happening again. One of the main points of the Glass-Steagle Act was to keep banks out of the brokerage business. By doing away with the restriction in the late 90's, we gave the banks an opening that led to their current problems. Since they had direct investment banking access it enabled them to package their mortgage into collateralized debt securities and sell them like they were insured bonds. It just did not work. The first weakening in real estate prices had a decisively negative effect on the stability of these mortgages. Many of these mortgages would never have existed except for the creation of less stringent lending requirements each time a lending institution raised new cash from the sale of collateralized debt securities. This negative experience should lead to controls and limitations in the future. Let's hope we can learn from our mistakes.

An area of investment that should be considered now are the insured tax exempt bonds. The reason that AMBAC, MBIA, and others did so well over the years is because they only insured tax exempt issues that they felt were absolutely safe in the first place. Their losses were

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minute. It was only when they expanded into the mortgage backed securities that their losses mounted and their investment ratings were lowered. Now we see very good municipal issues with an AA rating because they are insured by a company whose former rating has been lowered from AAA to AA. Most of these bonds could have achieved a AA rating on their own merits. Your broker's job is to find such bonds for you in the tax jurisdictions that best suit your situation. You should be able to get a current return in excess of 5%.

William Lang has been a stock broker in the Washington DC area for approximately 50 years. He currently is the President of the Lang Division of Moors & Cabot, Financial Advisors. Mr. Lang is a graduate of Georgetown University and serves as the Treasurer of the Army and Navy Club of Washington. He is a retired USAF officer.