

The Advisor



Issue #6

Hampton Roads Financial Executives Forum

Thursday, December 3, 2009 3:00 - 5:00 PM

“Simplifying the Equity Markets and Portfolio Decisions” presented by Neil Halpert, CPA. In this session Neil will discuss the equity markets, ways to invest in equity markets, technical analysis, exchange traded funds and portfolio construction considerations.

2 CPE credits will be awarded to each attendee at the end of the presentation.

Member Appreciation Social 5:00 - 7:00 PM

Please join us for our annual year end gathering. Enjoy heavy hors d'oeuvres, a complimentary bar (beer, wine and spirits) and networking with fellow HRFEF members, as well as our corporate sponsors.

There is no charge to attend the meeting and social.

RSVP

If you would like to attend the HRFEF meeting and social please email cowanj@donrichard.com by close of business November 30, 2009.

Time:	Location:
Program 3:00 PM - 5:00 PM	Holiday Inn Executive Center
Social: 5:00 PM - 7:00 PM	5655 Greenwich Rd
	Virginia Beach, VA 23462

This session offers 2 CPE credits

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Neil Halpert, CPA, PFS

Neil is a licensed CPA in the Commonwealth of VA and is a FINRA registered research analyst holding the Series 7, 66, 86, and 87 licenses. These licenses enable Neil to be a financial advisor as well as to publish on investment topics and specific stocks. He holds the Personal Financial Specialist (PFS) designation from the AICPA. Neil also serves as an investment strategist on an as needed basis for the Brogan Group Investment Advisors, LLC of Philadelphia, PA.

Neil is a Virginia Tech graduate with a BS in Accounting. He began his financial career performing both internal and external auditing for national firms. Since 1984 until 1998, he was the CFO, Treasurer and an owner of Marston Manufacturing, Inc. and Cast Iron Products, Inc., where he was responsible for all financial, administrative and manufacturing activities.

After selling these businesses, Neil was also a Vice President and Equity Analyst for the Core/Relative Value team of Trusco Capital Management from 1998 to 2007. While at Trusco, he performed the fundamental stock selection, research, and valuation of the Mid Cap and Large Cap stocks primarily in the consumer staples, industrials, basic materials and telecommunication services sectors. To a lesser extent, he also covered the consumer discretionary and technology sectors as well.

He was the Senior Research Analyst of the consumer discretionary sector for Davenport and Company, LLC from August 2007 until October 2008.

Portfolio Investments for a Weakening Dollar

by David Bogoslaw, www.msnbc.com

Given so much weakness in the U.S. dollar lately, there are probably lots of people wondering how it will affect their investment portfolios before the currency stabilizes.

The greenback has hit a rough patch -- as evidenced by a 1.04% decline in the U.S. dollar index, which measures it against a basket of currencies, over the past week. One reason for the speculative run against the dollar was the failure of a statement defending the dollar to emerge at the summit of financial ministers from the group of 20 countries in Pittsburgh in late September, according to Brian Dolan, chief currency strategist at Forex.com.

The omission rekindled speculation that the oil producing nations are seriously considering an end to trading crude in dollars and are moving instead to price it against a basket of currencies, including gold. Oil-producing states have once again denied the rumor.

Despite that and general agreement that any credible challenge to the dollar's status as the world's pre-eminent reserve currency is probably several years away, the dollar could still depreciate by another 10% before it stabilizes.

William Cline, senior fellow and resident global trade specialist at the Peterson Institute of International Economics, puts the currency's recent decline in context. Although the dollar has depreciated by about 9% over the past seven months, that is just a partial reversal of the 12% bounce it had from its recent low in March 2008 -- the result of its enhanced allure as a safe haven for investors when the financial crisis hit.

A further 5% gain for the euro?

Even at its pre-spike March 2008 level, the dollar was overvalued, says Cline. If the dollar had stayed at the inflated March level for a couple of years, it would have driven the U.S. current account deficit up to 5.5% of GDP by 2011, he says. "A desirable target is 3% of GDP, so we needed to have this dollar correction," he says. "We have had more than half of that correction since March. I see room for another 8% to 9% decline in the dollar" before it returns to what he calls its fundamental equilibrium exchange rate.

Any further decline ideally would come against some Asian currencies, especially the Chinese yuan, but part of it will also come from a likely 5% additional gain in the euro, Cline adds. The rule of thumb is that a 10% decline in the exchange rate would lower the current account balance by 1%, to 1.5% of GDP, requiring one to three years for the full effect to be seen, according to Barry Bosworth, senior fellow at the Brookings Institution in Washington.

As fear of another Great Depression has ebbed, investors have turned their attention to the null interest to be earned on U.S. Treasury bills and are moving into riskier assets that offer higher returns. The zero interest on short-term government debt has caused more than \$500 billion to move from money market accounts to corporate and longer-term government bond funds since January.

But won't a weaker dollar make it harder for U.S. Treasuries and other dollar-related assets to attract the foreign capital needed to sustain the enormous U.S. current account deficit? Charles McMillion, chief economist at MBG Information Services in Washington, thinks so -- and he believes this increases the chances that the Federal Reserve will raise interest rates to keep money flowing in from overseas.

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Since the Fed's priority is to bring unemployment down, some strategists think the likelihood of a rate hike soon is practically nil. The central bank would sooner expand its purchases of Treasury bonds to keep the Treasury flush with cash, says Tim Knepp, chief investment officer at Genworth Financial Asset Management (GNW).

EverBank's multicurrency deposits

What's good for Main Street, however, isn't always good for Wall Street. So what should investors do to minimize their portfolios' exposure to the weaker dollar?

For those who worry about the softer buck but still prefer to own cash over higher-risk assets, EverBank Financial offers a multicurrency account with as many as 20 different sub-accounts for various foreign currencies under the main account. Depositors can hold their money either in full liquid money market accounts or certificates of deposit with a minimum term of three months. The interest rates on foreign currency deposits are based on the interest rate structures of the countries whose currencies an investor chooses to own.

While an EverBank account is fully insured by the Federal Deposit Insurance Corp. (FDIC), that insurance covers only the failure of the bank, not currency risk. That means depositors need to be certain that they know what risks a certain foreign central bank is facing before they lock their money away for three months, says Chuck Butler, president of EverBank World Markets. On the other hand, depositors holding money in an Australian dollar sub-account benefited this week from the Australian central bank's surprise quarter-percentage-point rate hike.

EverBank currently holds over \$1 billion in multicurrency accounts and Butler expects to see additional cash inflows if any currency starts to gain momentum against the dollar. He doesn't expect central bank intervention to thwart such momentum because it normally works only in the short term. "The markets usually have deeper pockets than any central bank," he says. "There were rumors that the European Central Bank would intervene" when the euro soared against the greenback in April 2008, says Butler, "but it got to \$1.60 and we never saw any intervention."

Higher yuan could boost U.S. exports

More aggressive investors who seek higher returns than cash provides might want to buy the government and corporate debt of countries whose balance sheets are more robust than the U.S., such as some in Asia, says Knepp at Genworth. His company owns shares of the Aberdeen Asia Bond Institutional Single Fund (CSABX), which Aberdeen Asset Management bought from Credit Suisse earlier this year. Knepp expects the fund to generate a 10% to 13% return over the next 12 months -- "unless we see a big depreciation in the dollar," in which case the return would be much higher.

The portfolio is comprised almost entirely of investment-grade debt, with roughly 37% in sovereign debt, 45% in corporate bonds, and the rest in Asian currencies as of the end of June. The fund's largest holdings are in Korean and Singapore government bonds.

A further decline in the dollar would help U.S. manufacturers by pricing exports down and making them more competitive, says Scott Paul, executive director of the Alliance for American Manufacturing in Washington. But more than 80% of the U.S.'s global nonpetroleum trade deficit is with China, so "unless the dollar drops in value against the Chinese yuan, the benefits of a weakened dollar for manufacturing are going to be limited," he says.

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Because of statutory requirements, the Obama Administration is expected to decide within the next week if it wants to formally label China a currency manipulator. That would increase the pressure on China from the international trade system to decouple the yuan from its dollar peg, he says. Critics maintain that the dollar peg keeps the yuan's value artificially low vs. the dollar.

U.S. multinationals: unique strengths

To the extent that a weaker dollar would boost manufacturing exports from the U.S., it would be expected to increase earnings for U.S. companies with a major presence in foreign markets. Big U.S. companies with significant overseas revenues include stalwarts such as Colgate-Palmolive (CL), General Electric (GE), and Caterpillar (CAT). A weaker dollar also means that the revenues U.S. companies generate overseas in local currencies would translate into more dollars when repatriated.

Genworth's equity-based strategy favors U.S. multinational companies not only because they benefit from higher revenues in terms of dollars, but because they gain by selling into faster-growing regions than the U.S., says Knepp. He expects the earnings growth for these companies to outpace those of the typical domestically focused U.S. companies. The fact that these multinationals tend to have fairly strong franchises that sell relatively indispensable products, such as consumer staples and energy and technology equipment, means that their returns on a sector basis should be better than the broader market, he adds.

U.S. stocks as a whole might even have a decent chance of overcoming significant further depreciation in the greenback. If the equities market -- which remains 30% below its 2007 peak level -- were to continue to rally in line with expected earnings improvement, "it wouldn't be too difficult for that [to counteract] a 5% to 6% [further decline] on the dollar," says Cline at the Peterson Institute.

Whatever the dollar's fate is, investment strategists are likely to keep a close watch on it as they adjust the asset allocation in their portfolios during the months ahead.

