The New Mexican/Real Money November 9, 2004

WHAT THE GOP WIN MEANS TO YOUR PORTFOLIO

Now that we can see the outlines of the country's direction for the next four years, it is time for investors to review their portfolio in light of the continued and strengthened Republican domination of the executive, legislative and judicial branches of our government. Due to the financial straightjacket we have fashioned for ourselves by relying on foreign financing to subsidize our national consumer habits, it becomes ever more challenging to find a strategy that will provide investors at least 2 out of 3 classic goals: safety, income and growth.

In the olden days, investing was like checkers. before the collapse of Enron and WorldCom, before the technology bubble of the late 1990's and the emergence of relentless pressure on corporations to report higher earnings, people found it possible to believe in the connection of corporate well being and the health of the stock and bond markets. Individuals who were able to save money were able to have confidence that the stock market would provide for the growth of their nest eggs. For those desiring more safety, bonds were to provide a lower return but enough to protect a decent standard of living. Alas, individual investors are learning that the new world order is not a comfortable place to be.

Traditional investing, like checkers, is a fairly simple game, easy to learn, taking some skill to master but the number of possible moves is limited. I believe that investing today in the very early years of the 21st century has taken on the attributes of three dimensional chess. Chess requires investors to look far ahead into the future and it requires mental work that results in the creation of multi-step plans. It requires an ability to conceptualize and probe the hidden agendas of adversaries who may, and likely will, come at you from all sides. It requires us to expect the unexpected, to develop a style of risk management quite unlike that of checkers.

Three dimensional Chess, a pastime of a foolish few gluttons for punishment, requires constant contingency planning, which means postulating "what if" scenarios. Our economic situation requires the same kind of creative vigilance and farsighted disaster planning. With low interest rates but high gas prices, what happens if bonds rates stay at 3% for the next 15 years? If mortgage rates remain low so we can afford a bigger *house*, what do we do about runaway inflation in the cost of healthcare and higher education? Will traditional stocks and people's equity value built up in their real estate provide for the growth needed for retirement? This is what traditional investment wisdom tells us. I question the basic premise that using only stocks and bonds will do the trick because we may well live in a world where, as the white rabbit and Jefferson airplane tell us "the truth is found to be lies".

With brokerage firms, banks and now insurance companies under harsh scrutiny for betraying the public trust, it is hard to know where to turn for harbor from the storm. The financial reality is that we face long and costly struggles on many fronts. Our question is where can a small investor go to achieve sufficient returns to make the mathematics of retirement work?

My assessment is that the strategy most likely to work in this environment is akin to how adepts play three-dimensional chess. The global forces that now make traditional investing inadequate include the likely gradual decline of the U.S. dollar, increasing prices for natural resources, low interest rates and brutal international competition for decent jobs.

It is likely that full employment will never come back to the U.S. Our technological and educational advantages have been mitigated by the development of very competitive schools abroad. Interest rates cannot be allowed to go up very much here, or in Europe, as individuals and governmental entities would be unable to sustain their current spending levels. We must run to stay even. A crack of confidence caused by high rates would trigger investor fears, well founded due to the likely hood of skyrocketing defaults and bankruptcies.

As a result, we are in for a long period, perhaps for even a decade, where investors will have to work longer and harder to achieve decent investment results. Working harder means having to do more research and getting out of our comfort zones. Much to couch investors' chagrin, many necessary kinds of investments will not be able to be researched from the comfort of home over the Internet or read about in popular business periodicals.

Investors need to start to look around at a much wider variety of vehicles, not all of which are convenient due to specialized paperwork required by law to invest in private deals and the possible application of more complex tax laws which often govern alternative investments. Our forecasts show, for example, that private real estate deals will outperform REITS publicly traded stocks, and small but effective hedge funds that can manage multiple currencies will outperform the now widely held and popular stock indexes. Also, involvement in various natural resource opportunities such as oil and gas, sustainable lumber and energy transmission companies will help investors augment the interest and dividend payments thrown off by publicly traded stocks and bonds.

As far as traditional corporate/government bonds go, in a slow growth, stealth inflationary world, owning a wide variety of income investments is necessary. These might include covered call funds, long-short funds and diversified high yield bonds. All of these vehicles strive to allow investors to receive steady current cash flow, especially when the broad markets remain lackluster.

It would be nice, very nice, if investors could continue to rely on mutual funds, indexes and insurance companies to provide for the required levels of growth and income needed for secure retirement. Sadly, I doubt this is so as investors, especially individuals, need to look long and hard at how the rules have changed in the investment game. When various states' attorney general offices spend much of their time busting up long standing white collar rackets, we need to learn the lesson that what you see is rarely what you get. I guess the same could be said about politics! If the powers that be are looking ahead five moves and positioning themselves to take advantage of the general public, shouldn't you do a bit of strategic shuffling as well?

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