

# MONEYWATCH

## ADVISORS

January 4, 2011

Newsletter to Clients

Happy New Year. WOW, 2011 already!

Many investment strategists fear long term bond investments because they expect them to be hurt in the future because of concerns with inflation fueled by government overspending. You may have heard the 'Bond Bubble' expression. We share this concern and prefer to invest the fixed income portion of clients' portfolios in variable rate investments. We believe that one of the best choices in the market place to fulfill this need is in the bank loan participation fund sector. Loan participations and leveraged loans which prior to 2008 had almost always sold for face or par value declined precipitously in 2008 and 2009 as forced liquidations occurred among financial institutions, hedge funds and other leveraged investors. We will never forget our '1929' type meltdown. The resultant bargain basement valuations were gradually recognized as too severely low and when the huge 'expected' defaults failed to occur, prices began to rise steadily. Many of the bank loan participation funds now sell for a premium over their respective net asset or book value for the simple reason of anticipation of higher valuations and rising future distributions from higher interest rates on the horizon.

BlackRock Floating Rate Income Trust (Symbol BGT) announced a special distribution of nearly seventeen cents (\$0.169609) per share in late December to be payable on January 10. The regular 7.5-cent monthly distribution is also payable on January 10. We shall be addressing this new cash in each account during the second half of January. I am almost afraid to say I am happy to see BGT back above \$16 per share, because there are thousands of investors who are waiting to 'get even' which translates into selling into this current rally. A few weeks ago BGT jumped four percent (4%) on volume nearly five times the norm. Obviously, institutional investors are adding this fund to their portfolios.

The price of gold has never been higher and gold mutual funds, like First Eagle Gold Fund (Symbol SGGDX) are trading near all time high price. Gold's rising price is being fueled by growing fear of three things. One, sovereign governments are acting to weaken their currencies. Two, a growing number of investors fear future inflation. Three, owning gold or gold stocks is now fashionable and many financial institutions which heretofore pooh-pooed the idea of owning gold are getting on the wagon. Will gold rise to \$2,500 in the next few years? I believe it could as my three fueling factors become more widely recognized and popular.

Each and every client portfolio is carefully analyzed for strategic balance (cash & fixed income or bond type investments versus equity or stock market investments) approximately every three months. We have not been in the habit of mailing reports which indicate no changes because no one needs to be told we are making no change in writing. I feel dumb even saying this. We are watching your investments very closely, diligently is the best word I can conjure.

Thanks for your continuing confidence.