

Ω THE OMEGA FINANCIAL GROUP

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FALL 2010

OPINIONS & FACTS...

Quote of the Year...

"I'm a mother. I'm a wife. I'm an American veteran, and I'm one of your middle-class Americans. And quite frankly...I'm exhausted of defending you, defending your administration, defending the mantle of change that I voted for, and deeply disappointed with where we are."

Velma Hart, an African American woman, addressing President Obama at the CNBC Washington Town Hall Meeting September 20, 2010

"GO AHEAD AND DRAW, STRANGER!"

While surfing the TV channels several weeks ago, I caught Alan Ladd in the movie, *Shane*, and once again enjoyed the beauty of this classic western and seeing the fading skill of an aging gunfighter. A few evenings later, the film starring Clint Eastwood, *Pale Horse Rider* came on. Mr. Eastwood played the part of another quick-draw gunman who mysteriously showed up in time to cause much trouble for the selfish "villains" who ran the town. Both films were about helpless farmer-types in the new frontier who were practically defenseless against powerful ranchers who hated squatter fence builders. The ranchers vowed to move them off the land so they could graze their cattle.

In these two movies and in most other popular westerns even today, the "villain" initially is the wealthy rancher who basically wants to control the real estate. He usually has a crew of "junior" villains to help him. But he almost always finds a "hired gun" to come to his town and convince the farmers they should go elsewhere to raise their crops.

The interesting part about these typical western movies as in both *Pale Horse Rider* and *Shane*, the hired gun always comes out on top.

"WE CAN MAKE YOU RICH! JUST LOG ON!"

These films reminded me of people I know who watch and succumb to the seductive and deadly siren song of the TV ads posted by Scotttrade,

Etrade, Ameritrade and other online brokerage firms. This do-it-yourself guy chooses to try to win the investment game on his own: a sucker's play. Reflecting on almost 50 years of personal experience, I immediately asked myself, "Why don't they bring in a "hired gun" to handle their investments?"

Besides facing the truth that he/she is an amateur investor spending precious hours at the computer ignoring his family and doing his own trades, the would-be investor, aka sucker, also never realizes that his life expectancy is usually much shorter than his spouse. Experience tells us that the spouse of a trader seldom knows or cares what is going on in the mind of the trader regarding the investing toward retirement or other worthy goals.

"Call 911, Please!"

Imagine the panic when the breadwinner (the self taught stock trader) has his first stroke? Then later what happens to the investment account when the wife becomes a widow? It's even more tragic if the surviving spouse attempts to take on the "trading desk" with totally different needs.

RIP

We have great sympathy for those who want to do it themselves. Many believe that they are bulletproof and will never miss; that they'll always "win" and they will always be able to defeat the "rancher", aka *the stock market, which has now become the villain*. Not hardly. The villain is really not the market; the villain turns out to be the professional investors and experienced money managers out there who cannot be beaten by amateurs over meaningful periods.

So finally at the low of the bear market the do-it-yourself investor, visibly defeated, ends up bringing in the hired gun, hopefully not too late. Interestingly, in many cases the "hired gun" is stepping into his first gunfight and foolishly brings only a knife.

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If you are a do-it-yourself kind of person, go to Home Depot not online brokerages.

“OK, Folks. We promised no commercials. But we just couldn’t resist!”

Recently a client called and in a very sincere voice asked the question: “Joe, why do you keep writing so much and addressing the problem of deficit spending by the Federal government?” He added, “According to the White House this spending would act as a stimulus; and even if the *deficit grows*, some good could be done if a careful planned program was established.” (I quickly reviewed my memory of some idiot in Washington – Democrat or Republican, doesn’t matter – whose suggestion was to drop fifty dollar bills all over the country to encourage spending.)

“Thanks for the prompt”

My client’s question was timely because *we’ve* wondered for some time how spending cuts could work so fast that it would do some good in our present economy. There are a number of reasons. First, spending cuts by the Federal Government give a signal that taxes will not be increased in the future, or if they do, they will be smaller. This can create a positive attitude with the tax payer and allow him to plan for the future.

Alberto Alesina, a professor of political economy at Harvard in a recent OpEd piece in the *Wall Street Journal*, states: “A credible plan to reduce government outlays significantly changes *expectations* of future tax liabilities. **This in turn shifts people’s behavior.** Consumers and especially investors are more willing to spend if they expect that spending and taxes will remain limited over a sustained period of time.”

“Turn over the coin, please.”

As the corollary of that, various adjustments based on tax **increases** reduces consumer disposable income and negates the incentive for productivity. As we’ve said many times, the big problem we have today is **UNCERTAINTY**.

We’re are only days away from the November elections, which as we’ve said in our last letter, could very well change the make up, both politically and economically, of our country. However, it gets closer and closer to the end of the year and typically Congress adjourned and went home without having

a final vote on the tax situation in the future - and the beat goes on. (Did somebody say, “Kick the ball down the road”?)

“We Aren’t Dumb, Here at Harvard.”

Mr. Alesina sums up his column by saying, “The evidence from the last 40 years suggests that spending increases meant to stimulate the economy and tax increases meant to reduce deficit are unlikely to achieve their goals. The opposite combination might.” I don’t know if this gentleman learned his economics at Harvard, but that’s the same philosophy we happened to pick up at Texas A&M, TCU, University of Texas and Paschal High!

“BEHAVE! PAY ATTENTION!”

As most of you know, here at Omega we have been convinced for quiet some time that an investor’s behavior has more control over the results of his investing than anything else. Certainly you have to diversify and you have to make smart asset allocations; you also have to do enough research (or have your advisor do enough research) to make sure that the people managing your money are adequate to the task.

What it all comes down to is that your behavior (and ours too) controls the results of your investments.

There are only two people who can foul up your investment accounts: you and/or your advisor. The fact that it’s virtually impossible to develop any kind of long-term investment plan or philosophy out of today’s headlines does not stop speculators from trying. This is why the average equity mutual fund investor earned a return equal to about 1/3 of that provided by the average equity mutual fund over the last 20 years (*3% per year opposed to 10+% per year*).

Our Opinion

A word from Gordon Gekko.

The emotion, **greed** makes us run to invest in a rising market; and **fear** tempts us to sell at the wrong time. Certainly it’s difficult, if not sometimes impossible, to do away with panic in the field of investing. The famous words, “It’s different this time” seems to spring up when bear markets frown on our investment accounts. However, there is

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some logic that's needed if you are to have faith in your investments; and historical facts help us to use logic rather than fear in tough markets. Here's a quote that we've used many times from our old friend Mr. Nick Murray:

“The Facts, Ma'am. Just the Facts. No Spin, Please!”

“Thirteen times since the end of WWII – roughly one year in five – an average of nearly one third of the capital invested in the broad US equity market has appeared to disappear. Each time, this has proven to be an illusion: a temporary decline against the backdrop of a permanent advance. One had only to wait – and, if possible, to continue adding to one's investments at panic prices – for the apparently lost capital to be restored, and then multiplied. Indeed, much or most of the capital “lost” in the market cataclysm of 2007 – 2009 has already been returned. Sadly, if inevitably, it has been returned to other people.

“The capital has been restored to – and is now to be multiplied in the accounts of – people who maintained their faith in the future. The shares which will accomplish this great accretion of wealth were sold to the people who maintained their faith by the people who lost theirs. It is as simple as that. It always will be.”

That's our take, too. Yours is welcome.

In the Wednesday, October 12, 2010 issue of the *Wall Street Journal*, Sue Shellenbarger wrote an excellent article defining some principles that lead to slumps in the workplace, at home and in sports. **The signal for a slump, someone said, is a loss of confidence, overthinking every move, dwelling on past failures or working too much.**

We don't know if you have ever had experiences such as this, but Ms. Shellenbarger gives us some outstanding outlines, “How to Change Negative Thinking”, “Causes of Slumps in Sports and Work”. Following are a number of things that we at Omega hope will benefit you when you get in a “slump”. As former professional baseball players, the Principals in this firm understand completely what slumps are, because we have all gone through them.

Take a look at the listings below and hopefully it will help you as time goes by.

Putting on Your Game Face

Some tips on recognizing and improving the mental side of workplace performance.

Causes of Slumps In Sports and Work

- *Fear of repeating past failures*
- *Dwelling on past mistakes*
- *Loss of confidence*
- *Overthinking the next move or play and choking or freezing*
- *Overtraining in sports, burnout on the job*
- *Forgetting your original purpose or attraction to your sport or job*
- *Constant destructive criticism by a coach, fans or a boss*
- *Resurfacing of past fears arising from psychological trauma or injury*

Techniques to Change Negative Thinking

- *After a mistake or failure, refocus immediately on a past success.*
- *Visualize yourself succeeding on the next sale, meeting, play or game.*
- *Record and refer to your past peak performances, on video or in writing.*
- *Turn off your mind and focus on step-by-step processes.*
- *Use rest or relaxation techniques such as deep breathing.*
- *Surround yourself with encouraging people.*
- *Recall the original purpose or attraction that drew you to your sport or job.*

Keep the Faith- We Live in a Great Country!

Joseph E. Hawley *John Dickens*
Tom Hawley *Jammy Bryant*