

Ω THE OMEGA FINANCIAL GROUP

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MEMBER FINRA & SIPC

INSURANCE AGENCY

DONOR ADVISED CHARITABLE ORGANIZATION

OPINIONS & FACTS...

LATE SUMMER 2009

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Quote of the Summer:

“You cannot legislate the poor into prosperity by legislating the wealthy out of prosperity.”

“What one person receives without working for, another person must work for without receiving.”

“The government cannot give to anybody anything that the government does not first take from someone else.”

Adrian Rogers, Founder
Love Worth Finding
1931-2005

Thanks to Kenneth Hall

“You’ve done a great job. Now, what are you going to do for me next month?”

The local headline was a soothing thing for us here at Omega Financial:

“Market closes with its best July in two decades.”

The article went on to say, “Investors placed big bets over the last month that the profit machine at U.S. companies will continue to rail higher and that the longest recession since World War II is finally easing its grip.” In case you haven’t kept up with it, the Dow Jones Industrial Average went up 8.58% in the month of July with the biggest growth coming in at the final days of the month. The S&P 500 Index saw its best performance since 1997, going up 67.86 points or 7.38%. The NASDAQ was up 7.82% for the month.

The Dow Jones was up 4.5% year-to-date and down 19% for the last 52 weeks. The NASDAQ Composite was up 25.5% year-to-date and down 14.4% for the last 12 months. The S&P 500 was up 9.3% year-to-date and down 21.6% last 12 months. As you can see, at the end of those particular time spans, the market doesn’t gain on an equal basis (or go down on an equal basis) each and every increment of time. For example when you look at your most current report, you will see that since the market bottomed on March 9, 2009, most of the growth has come in your funds over a short period of time.

“It’s a tough job, but somebody has to do it...”

We have said so many times that we have a miserable job here at Omega, in that we have to tell people when markets are advancing, that they are eventually going to turn bearish. And on the opposite side, as you have heard us over the last 6-8 months, we’ve almost shouted that although markets are declining they will turn around and resume their growth. However, at this time we’re going to enjoy things for a while!

“How did the recent economic tsunami occur?”

This leads us to an article we recently read by Paul McCully, a top executive with the Pimco Fund Group in Newport Beach, California. He basically agrees with us when we reminded our readers that as we wrote in 1999 that the current economic crisis began when Congress yielded to Big Bank lobbyists and allowed the wall separating banking and securities to fall. According to Mr. McCully, this action helped to create something called a “Shadow Banking System”. The rise of this system drove one of the biggest lending booms in history and collapsed into one of the most crushing financial crises we have ever seen. There was no suitable existing regulation for this hybrid creation – Modern Investment Banks. The commercial banking system was regulated pretty well by the Fed and FDIC and the securities market was covered just as well by the SEC and what is now known as FINRA.

“Explain Further Please...”

Mr. McCully cited Hyman P. Minsky, a 20th century American economist, who shows that *stability in markets only leads to instability*. He explained that unlike conventional regulated banks, the unregulated, “shadow banks” utilize uninsured short term funding which may or may not be allied with liquidity lines from real banks.

“Since they fly below the radar of traditional bank regulations, these levered up intermediaries operate in the shadows without backstopping from the Federal Reserve’s discount lending window or access to FDIC deposit insurance”, says Mr. McCully. He continues: “So with money very cheap and the idea of conventional leverage sweeping over the system, the creative funding of numerous investment ideas produced by hedge funds and other 21st century investment vehicles are obvious results of greed gone wild.” In cutting through these ideas, what really

happened was that the sense of stability in markets did nothing but increase the possibility of instability in these same markets. In this case with money easy to borrow and very little regulation, the shadow banking system came up with creative and speculative ideas which turned the stability of capitalism into the instability of a credit crisis. Or as the old saying goes: “When it’s easy to do, everyone does it.”

“What do you mean; the value of my home may decline?”

Evidence of this hypothesis is that *stability is destabilizing*. Capitalists have an addictive tendency to extrapolate stability into infinity, putting in place even an ever more risky debt structure, up to and including Ponzi units that underline the so called stability, states Mr. McCully. He continues: “The longer people make money by taking risk, the more imprudent they become with risk taking. If everybody is becoming more risk seeking, that brings in risk premiums and drives up the value of collateral, increases the ability to leverage and the game keeps going.” Mr. McCully adds, “Human beings are not wired to buy low and sell high, they are wired to buy what is going up in price”. In other words, **people will always want to buy when prices are up and sell when they are down**. While all markets and companies seek stability, stability can never be a destination, only a journey to instability.

So just like Warren Buffet, Henry Paulson, Barack Obama and us here at Omega, there is no way that we can tell you what happens in the future. Our friend Nick Murray (who’s article you will find nearby) says, “We not only don’t know what is going to happen; we don’t even know what we don’t know.” **So our job, as your advisor, is to help you “keep your head.” Not only should you be an optimist, but it is also vital that you recognize your limited abilities to manage your own long term investments. As we said earlier: Human nature has wired us, emotionally, to buy high and sell low.**

There is one thing that we have discovered however, our clients have fared better by remembering and recognizing what we have learned over the decades: Rather than our clients attempting to manage their own money we find there are more logical paths you should consider walking:

Look For

1. Experienced and lengthy manager tenure.
2. Low investment costs for management and advice.
3. Low turnover in portfolios- managers **and** assets
4. Extensive global proprietary research
5. Be cognizant of the clients’ risk parameters.

Finally, and we think this quite important: If the above facets are in play, have courage during downturns and – Hold on! Bear markets are the price we pay for consistent returns. With the above pieces in place we

consistently hope to help our clients to produce goal-reaching results.

A Wall of Worry – Nick Murray

An old and particularly annoying Wall Street adage holds that “a bull market climbs a wall of worry.” It’s nettlesome for a couple of reasons: (a) it’s undeniably true, but (b) it still doesn’t tell you when or even if your worry is misplaced.

Perhaps you’ll prefer the late John Templeton’s more elegant (and more complete) formulation: “Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria.” Any way you state it, this fundamental truism suggests that markets often go up quite a bit when many or most people are still firmly convinced that they have no business doing anything of the kind.

The plain fact is that it’s easy to be pessimistic when the economic data are dreadful *and* the market is falling. A crashing economy feeding the flames of a crashing market just feels right to most people. Regardless of what we end up deciding to do (or refrain from doing) with our portfolios in response to the bad economy/bad market feedback loop, at least we feel that we understand what’s going on.

It’s when the economy and the market seem to be seriously diverging that our anxiety levels start rising again. At such times, it’s not just that we don’t know what to do. It’s that what’s going on doesn’t seem to make any sense. This summer, investors may very well feel themselves to be in just such a pickle.

Gross domestic product is—or certainly was at last report—still falling. Despite massive federal stimulus that has no precedent by any measure since World War II, unemployment continues not just to rise but to soar. States are teetering on the brink of insolvency; California was recently paying its bills with IOUs. Home foreclosures are still rising, and home prices still falling. Even though a couple of the more successful banks have noisily repaid their TARP money, the banking system as a whole remains on life support.

Two of the three major auto makers have gone bankrupt; they are now largely owned by the government and their unions, and have thus transferred their huge unfunded pension liabilities to the taxpayers—who are also, through the nationalization of Fannie Mae and Freddie Mac, on the hook for the vast preponderance of the shaky mortgage debt in this country. And, oh yes, we have recently been giving very serious consideration to nationalizing health care in some form or fashion, with deficit and tax consequences no one seems to be able authoritatively to quantify.

All of this would make perfect (and perfectly awful) sense, except for one very bothersome fact. To wit, the stock market, at this writing in late July, is soaring. And that’s the verb, friends: soaring. It’s not rallying, it’s not recovering, and it’s not creeping back. Up 44% (on a closing basis) in a heck of a lot less than five months? Excuse me: that’s soaring, or else there’s no such thing. There is surely a wall of

things legitimately to worry about. And this market is certainly doing a bang-up job of climbing it.

People who rode out the horrific market decline of 2007–09—because we knew from bitter experience that we didn’t know where to get out, and would never know where to get back in, so we might as well just stay put—may regard this apparent contradiction with a certain amount of bemused detachment. (We paid in blood for that luxury, and you’d better believe we’re going to enjoy it.)

But the bad economy/rising market dichotomy can only be of very pressing concern to people who either removed their long-term investment capital from equities during the decline, or who have been holding back considerable new money—money which must at some point be committed to equities—waiting for some clear signal that the economy has meaningfully (and lastingly) turned. That’s historically the problem with either getting out of, or standing back from, a falling market: you get to be gratifyingly right for a relatively little while (in the context of an investing lifetime), but then you’re under the gun to be right a second time, with regard to getting back in.

The psychological pressure of that second decision is compounded, of course, by the largely self-imposed burden of regret at having “missed it.” How can I get back in the 970s on the S&P (this line of thinking runs) when I didn’t in the 670s...or the 770s...or the 870s...even when I kept reading that things might still be bad, but that they didn’t seem to be quite as bad as they were back when snow was on the ground. With my luck, I’ll get back in here in the 970s, and it’ll go right back down again...

This is a formula for paralysis. The way to break out of it—with the empathetic coaching of your financial advisor—is to begin thinking of the problem not in terms of the market but in terms of your goals. If you’re like most of us, money market yields are not going to get you where you need to go. They’re probably not going to be enough to secure a long retirement full of dignity and independence; they’re probably not going to get your granddaughter through college; they’re probably not going to keep your mother in a decent nursing facility, and they’re probably not going to fund meaningful legacies to the people you love and must leave behind in the world.

Try to formulate the problem as follows: **every day you stay in cash at money market rates of interest is probably a day when you get further from, rather than closer to, the ability to fund your most cherished financial goals.** Accepting that stark realization, rather than remaining mired in the bottomless anxiety of when and where to get back in the market, may—if you let it—move you toward a sensible long-term investment decision.

Warren Buffett, perhaps the greatest equity investor who ever lived, said, “The future is never clear; you pay a very high price in the stock market for a cheery consensus. Uncertainty actually is the friend of the buyer of long-term values.”

He said that in the issue of *Forbes* magazine dated August 6, 1979—just about thirty years to the day before you’ll be reading this. It may interest you—and, much more to the point, it may help you more comfortably to reach a good decision—to learn that on that day the S&P 500 closed at 104.

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Our Opinion

Now let me get this straight...the federal government, mesmerized by the personality of an exciting young President, is spending public money on a scale not seen since the reign of Solomon. Besides Obama Motors, (60 billion dollars to 100 billion dollars), there is Obama-Care for health insurance (1.2 trillion dollars over 10 years), the stimulus (800 billion dollars), a global warming offensive called Cap and Trade that hopes to siphon hundreds of billions of dollars from the private economy, and a Fiscal Year 2010 Budget of 3.59 trillion dollars.

“Send in the Clowns...♪♪♪”

Other than the Czar System, that this new administration has instigated (*where in the world did that come from?*) we take a hard look at the Obama government’s crew that’s been assigned to handle these businesses, which for the last 200 years has been the responsibility of a private economy.

“Take Me Out to the Ballgame...♪♪♪”

Here’s the line-up, ladies and gentlemen: The CEO and General Manager himself, Barrack Obama, President of the United States (the rest of the ballclub, by the way, who will be responsible for the private economy, have a resume of a lifetime in politics, public administration or academia) the batting order: Tim Geithner, Larry Summers, Peter Orszag EPA’s Lisa Jackson (16 years with the EPA), Commerce’s Gary Locke (zero private experience), Transportation’s Ray LaHood (14 years as Congressman), Agriculture Commissioner Tom Vilsack (Has “Served in the public sector at nearly every level of government.”). These guys will run insurance companies, automobile companies, banks, and other properties “sold” to them by the private sector, simply as a part-time, theoretical abstraction.

“...Don’t Bother...They’re here...♪♪♪”

Oh, for the days of the campaign! Some of us figured after he was elected President that Barrack Obama was going to be promoting young guns with new ideas, seeking risk capital for the next big thing. To quote Daniel Henninger *Wall Street Journal*: “it looks as if the Obama years will be about managing soft landings for mature industries and Old Unions in the American Autumn. Congress is talking about a “bad behavior” tax on beer and soda pop, to reduce obesity

and fund mega Medicare.” Mr. Henninger continues: “How about that bad behavior tax on government? Slim as the President looks, Uncle Sam is looking like quite the fat-boy.”

General Motors, following the instructions of the Administration and the Shareholder Consortium of United Auto Workers is utilizing old economy methods to produce those green hybrid automobiles, which nobody wants to buy.

And “Cash for Clunkers” is another tip of Uncle Sam’s hat to GM and the union shareholder. What next, a free throw shooting exhibition to raise money for our crumbling Medicare system?

So as Washington tries to kill and re-regulate our dynamic economy, still burning in the heart of America is the constant desire for innovation and the freedom it generates. And no matter who is in charge, there is a deep instinct in the American psyche to return to those times of creativity and thinking that made this country the Shining City on the Hill we heard about once.

We believe that the driving desire by the productive segment of our society still lingers. And the ability to build upon a 200 year strand of entrepreneurial history is simply waiting for noble leaders with the same markings as we’ve known in the past.

That’s Our Opinion, Yours Is Welcome....

Joe John Tom Jimmy



“BUT ED, THAT’S JOURNALISM. ONE DAY YOU’RE WRITING THE GARDENING SECTION, THE NEXT DAY YOU’RE A FINANCIAL COLUMNIST.”

Below you’ll see a list of our North Texas Lawmakers, in case you have a question about the proposed public health plan; like, “have you had a chance to read it”?

Your North Texas U. S. Lawmakers

Senators

John Cornyn, R, 202-224-2934

www.cornyn.senate.gov

Kay Bailey Hutchison, R, 202-224-5922

www.hutchison.senate.gov

Representatives

Joe Barton, R-Arlington, 202-225-2002

www.joebarton.house.gov

Michael Burgess, R-Lewisville, 202-225-7772

www.burgess.house.gov

Chet Edwards, D-Waco, 202-225-6105

www.edwards.house.gov

Kay Granger, R-Fort Worth, 202-225-5071

www.kaygranger.house.gov

Jeb Hensarling, R-Dallas, 202-225-3484

www.house.gov/hensarling

Eddie B. Johnson, D-Dallas, 202-225-8885

www.house.gov/ejohnson

Kenny Marchant, R-Coppell, 202-225-6605

www.marchant.house.gov

Pete Sessions, R-Dallas, 202-225-2231

www.sessions.house.gov

Who represents you? Go to

www.fyi.legis.state.tx.us