

# Ω THE OMEGA FINANCIAL GROUP

OMEGA SECURITIES, INC. • OMEGA II • THE OMEGA FOUNDATION, INC.  
MEMBER FINRA & SIPC INSURANCE AGENCY DONOR ADVISED CHARITABLE ORGANIZATION

## Opinions & Facts...

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### UNANSWERED QUESTIONS

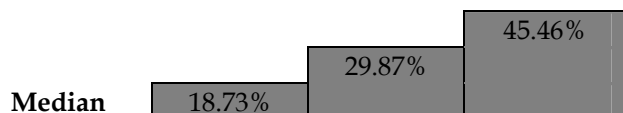
The big question that we are asked almost daily is: “When will this market turn around?” Of course, if we knew, you would be first to know. The fact of the matter is that nobody knows when this recession will play out. Thus far, we have been in it for approximately 13 months. You know by now that a recession is not the same as a Bear Market. Historically, the prices in various markets reflect future events 6 to 12 months ahead of their occurrence. Normally, when somebody comes up with a perfect market call, it’s not intelligence that brings it to the forefront, it’s simply luck.

### “So what makes our investments volatile?”

Everyday billions of decisions which effect economic activities worldwide are made by individual people and organizations. Certainly trends are visible but in many cases about the time that we know, or think we know, that a situation is going to change, we get “whipsawed”. Since nobody knows when the end of this Bear Market will occur, we want to remind you that we’ve personally been through them since the 1961/1962 down market. The following dates will indicate to you the date of the low on the S&P 500:

#### Bear Market Lows and Recoveries

S&P 500 Date of Low	3 Months After Low	6 Months After Low	12 Months After Low
6/1/1932	96.61%	58.97%	137.60%
7/8/1932	56.13%	69.83%	189.59%
2/27/1933	77.33%	109.76%	105.43%
3/14/1935	28.25%	49.15%	88.37%
4/28/1942	18.73%	29.87%	64.26%
6/13/1949	18.17%	27.77%	52.74%
9/14/1953	10.53%	21.07%	45.46%
10/22/1957	6.91%	12.03%	36.30%
6/26/1962	8.27%	22.74%	37.42%
10/7/1966	13.38%	24.28%	37.34%
5/26/1970	18.41%	25.26%	48.96%
10/3/1974	15.08%	34.15%	44.43%
8/12/1982	38.14%	47.93%	66.11%
12/4/1987	20.44%	21.21%	25.92%
10/11/1990	7.73%	30.05%	33.55%
8/13/1998	22.02%	30.27%	39.81%
10/9/2002	19.98%	12.53%	36.15%



We don’t know when the next low will occur if it hasn’t already occurred. However, one thing we have observed is that shortly after the market bottoms, we get a major upturn. Quite honestly, we do not anticipate anything different this time.

### “BEFORE WE FULLY STABILIZE...”

We believe there will be many new and different regulations passed at the federal level which will help to protect the investing public. There will be much more recognition of risk over the next decade, and as we have said for some 5 or 6 years, we do not anticipate anything higher than average upper single digit returns. In short, while the Federal government is pulling out all the stops to stimulate the economy, it will not occur overnight. The positive end of this tale is that while the stimulus is acting, the entrepreneurial spirit of our nation will sacrifice, produce and find new and better ways to grow our economy. It appears the new Administration has generated much excitement which hopefully will spill over into our economy.

This downturn has been a global affair. During this downturn there was “no place to hide”. All markets turned bearish, and though little consolation, you need to be aware that other people have suffered just as much as you and I have. As you can see the last major Bear Market we had began in March 2000 and lasted 31 months; 12 months after the bottom, the market was up 36%.

### “What are the numbers and what do they mean?”

2008 showed the S&P 500 down 38.5%, the second largest drop since 1931. The 5 years following 1931 the S&P 500 averaged 22% per year. Interpolation of these numbers is not really worth the time it takes to turn on your computer. We simply need to remind you that the people managing your money have consistently out performed the stock market over meaningful periods since the 1930’s, and shareholders have been quite happy with their long term results. We repeat: markets are cyclical and Bear Markets are all a part of investing. They are not fun, but they are necessary.

### “Is there no simple answer?”

No.  
The key that has always turned the prices of quality common stocks upwards is called “investor confidence”. Investor confidence comes about when uncertainty diminishes in our economy. Thus far, with the federal government inserting billions of dollars into the picture, we believe that it will take time to stabilize the economy. The world operated on

borrowed money for a long time. It cannot deleverage overnight.

**But history and logic has taught us that while the problem may be different, the free market is not dead. It has and will come back. History has also told us that those investors who have added to their accounts during these times will have invested at what may be at the low market of their lifetimes.**

**It's well to keep this in mind and understand that bad decisions can be made in looking at one year time periods. Emotionally making rash changes are usually a mistake.**

#### **“Ding Dong”**

On Tuesday January 13, 2009 another death knell for the financial supermarket idea sounded. **Citigroup Inc.** the go-to-squad that Sanford I. Weill brought together to meld insurance, investment banking, mortgage lending, credit cards and stock brokerage services announced that it was dismantling. This short lived project lasted a little over 10 years. We recall joining the chorus of experienced bankers who said, “it won't work”, when Congress demolished the wall between commercial banks and securities brokerages in the late 1990's.

As we've stated in other issues of *Opinions and Facts* these projects have long been dreamed about but have never worked. Now Bank of America, who acquired Merrill Lynch and Countrywide Financial, two troubled institutions, has recognized that its deals now require more taxpayer backing. Pretty soon, Pennsylvania Avenue will be renamed Wall Street.

#### **“Things – they are a'changing...”**

There is no question that the financial industry is in the midst of a makeover and headed back to the “no-nonsense” banking business as the high flying, swinging investment banks of Wall Street are slowly being taken over by Washington.

Hopefully this means that these “new” bankers will approach their jobs with a sense of prudence and duty instead of becoming arrogant, greedy and take our economy down the drain as their predecessors did.

Banking, which lubricates the wheels of commerce, will always have a special standing in our world. According to a column by Gretchen Morgansen in the *New York Times*, Paul J. Miller, an analyst at Friedman, Billings, Ramsey Group Inc., thinks that “the nation's financial system needs an additional \$1 trillion in common equity to restore confidence and to get lending – the lifeblood of a thriving and entrepreneurial free market economy, moving again.”

As we've reported earlier, the investment banks are now commercial banks and are going back to being the boring

companies that they should be, growing roughly in line with the gross domestic product.

This means an inevitable downsizing will occur and we will discover who the real bankers are.

The federal government is acquiring preferred stock in many of the financial institutions and reaping a very nice dividend. We hope that all the other money “loaned” to the big banks and others will be repaid. We don't feel comfortable being in business with the US Government. How would you like to own some US Postal Service stock?

At any rate, we look forward to the days when we will be able to go back into the banks and discuss our financial problems, looking for advice and help in a reasonable way, other than suggesting we leverage our assets 30 or 40 to 1, buy some auto insurance and one of those “hot” mutual funds.

Once again we are reminded of Warren Buffett's timely saying: “You find out who's swimming naked when the tide goes out.” And we're seeing a lot of nude investment bankers lately.

#### **A New Old Idea**

During the recent worldwide stock market decline, conventional thinking says that by being diversified in various sectors or areas (international and global stocks; bonds; domestic stocks large and small) would cushion the downturn, this time it didn't. All markets were hit. The only investment that was safe and stable was US Government Securities.

During times such as this, many advisors moved their clients to bonds (government or corporate) or cash. This solved the existing problem by “stopping the bleeding”; however, as you can see from the above chart showing market changes in the past Bear Markets that one would be hard pressed to move back into the market at the most opportune time. And one had to get out of the market at the perfect time, which is just as difficult to accomplish.

In the early 1970's Carl Andersen, a Boston colleague, and Joe Hardgrove, CEO Omega Securities, came up with a program which made a big difference in their client's portfolios. They called it “*Two-Dimensional*” investing.

#### **“So how does it work?”**

Depositing sums of money into bond funds which were at that time paying interest (dividends) in double digits, they directed the monthly cash dividends over into either growth or growth and income funds which had declined in value with the Bear Market of 1974. This cash flow allowed their clients to “dollar cost average” with this income the bonds produced. When the market turned, the plan was to move the money from the bonds to the stock funds. **Easier said than done!**

## “Oops!”

Since a bell did not ring and signal the bottom of the market, they were “whipsawed” a few times by even another sudden downturn!

As the years passed they found Equity Income and Balanced funds which held not only a fair supply of higher yielding bonds, but had large concentrations of *dividend paying stocks*, which not only provided a package with a modicum of safety but also made it possible for the investor to *stay invested* in both the Equity Income funds (the producing side) and the receiving side (growth and income funds) and not miss the market’s upswing. Although there are other advantages to “Two-Dimensional” investing we recognize that by using this approach we do not get pure safety. But the upside is the knowledge that your portfolio is in a position to recover lost ground without attempting to guess right about stock markets moves. As we’ve said: “No one knows where the bottom lies.”

We have established this program with a number of our clients (and our own portfolio). Interested? Let us know.

## OPINION

Perhaps one of the benefits of playing competitive athletics is the lessons learned in losing. The thought in the “old” days was spelled out on a sign in our athletic dressing room: “Losing helps nobody but the winner.” In modern times it makes sense to put losing games (and elections!) behind you and look to the future with a positive attitude.

Thus is the situation in the election season of the President of the United States. We are here to state that we hope that you and everyone else in our country will do their best to help the incoming President Barack Obama to be successful. We have all been told by the media and by President Obama himself that the road will be rocky and the hill a steep one. We knew this no matter who won the Presidential election. But now that we know, we would like to encourage all our readers to back the new administration to the hilt. A positive attitude about our elected leadership would be a good start.

We have observed his choices for cabinet and other important slots in the administration and although we might not have chosen the same ones, all in all his leadership shines when he looks to people who can be independent and give him advice that is best for the country.

**We need to let you know that we will be behind our new President as he and Congress faces this uncertain future.**

Another thing that we have observed since November is that from all appearances Barack Obama seems to be a very humble and patient man. We do not see a single sign of negativism in our new President, but rather he has shown thus far a strong and positive approach to the problems that we all face.

**One of the great slogans of President Reagan was “Trust but verify”. Thus we would encourage the opposition party along with the media to be alert and report clearly and accurately “goings on” in Washington. That’s the job of the media and the loyal opposition. Only by employing accurate and verifiable information can our nation avoid the unfortunate events of the past.**

That’s our take. Yours is welcome.

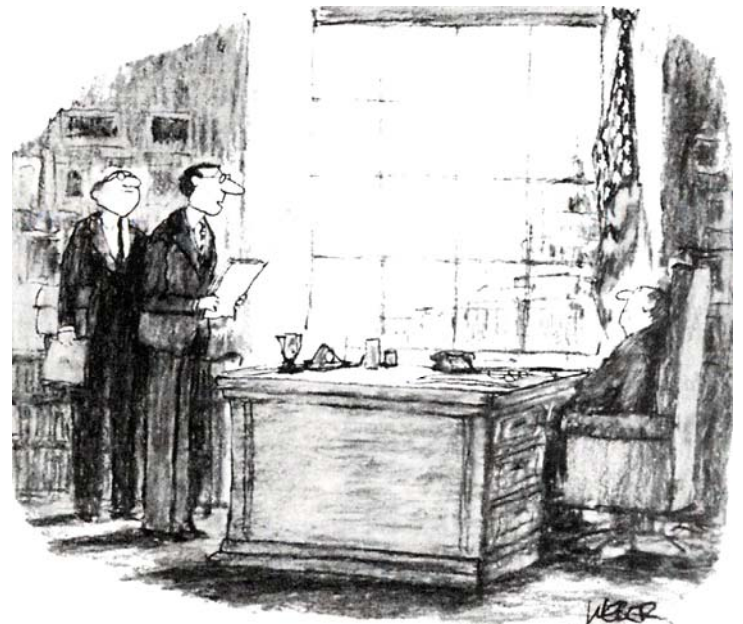
*Joseph E. Hawley*      *John Dickson*

*Tom Hawley*      *Sammy Byrd*

## Quote of the Month

“I came to realize that life lived to help others is the only one that matters and that it is my duty, in return for the lavish life God has devolved upon me, to help others He has placed in my path. This is my highest and best use as a human. Faith is not believing that God can. It is knowing that God will.

*Ben Stein*  
*Ben Stein’s Last Column*



“SENATOR. WE’VE FINISHED WRITING THE SPEECH AS YOU REQUESTED TO DELIVER TO THE TEAMSTERS UNION. I THINK YOU’LL LIKE IT ALTHOUGH THERE’S NOT A WORD OF TRUTH IN IT.”