

Sidoxia Capital Management, LLC

## Sidoxia's *Investing Caffeine*

### Blog Launches



It has already been more than a year since the humble beginnings of Sidoxia Capital Management, LLC in April 2008 (here in lovely Newport Beach, California). Since then, I have written a successful book, [How I Managed \\$20,000,000,000.00 by Age 32](#), appeared on ABC News, spoken on numerous radio shows, and traveled around to more than a dozen speaking engagements. Now, I am opening the next exciting chapter in my life journey - the launch of my new blog, Investing Caffeine.

[Check Out Investing Caffeine \(CLICK HERE\)](#)

[Subscribe to Investing Caffeine \(CLICK HERE\)](#)

Investing Caffeine will wake up your investment brain by tackling the complex issues of investing and financial planning, with the goal of educating and entertaining your mind. You can be the ultimate judge by posting your comments onto [Investing Caffeine's website](#). Financial topics can be boring, so make Investing Caffeine a part of your routine by injecting a jolt of financial knowledge. See you at my café!



Wade W. Slome, CFA, CFP  
Author of [How I Managed \\$20,000,000,000.00 by Age 32](#)

Mr. Slome is also the media go-to resource - he has been seen on [ABC News](#) and quoted in the [USA Today](#), [New York Times](#), [Dow Jones](#), [Investor's Business Daily](#), [Bloomberg](#), [Smart Money](#), among other media publications.

[Join Our Mailing List!](#)



[Follow Mr. Slome on Twitter](#)  
[CLICK HERE](#)



Sidoxia's [Investing Caffeine Blog](#) [CLICK HERE](#)

# The Game of Anticipation



Shhh, if you listen carefully, you may hear the next shoe(s) dropping? Or so the bears say. Unemployment is up, deficits are expanding, the U.S. dollar is declining, credit card delinquencies are rising, commercial real estate prices are imploding, banking loan losses are on the climb, auto companies are going bankrupt, gas prices are skyrocketing - oh my gosh...run for the hills!

With all this apparent bad news, how could the Stock Market, as measured by the S&P 500 index, possibly rise +5.3% this month (excluding dividends), and +38% from early March? The short, simple answer is

that the Stock Market is like a game of chess - the participants (at least the smart ones) are continually anticipating the future moves (direction) of the game.

Stock values currently are mirroring the inflection that occurred in early 2008. Back then, the "news du jour" was relatively benign, yet investors were heading for the exits based on the forming storm clouds that predicted gloomier times 6-12 months into the future. Rather than expect worse times ahead, stock prices are currently doing the opposite. The Dow Jones Industrials Index was busy discounting improving conditions in May, as it too advanced (+4.1% for the month). The tech-laden NASDAQ index climbed more modestly (+1.4%) than the other major indexes, however has surged ahead +40% since the March lows and is up +13% for 2009, excluding dividends.

Driving much of the recent optimism are signs that we will eventually emerge from this "great recession". Here is some evidence to support that view:

- **Banks Improving:** The KBW Bank Index is up over 100% since the March lows. "Stress Test" results regarding the 19 largest financial institutions revealed no major surprises and tens of billions of subsequent capital was raised to shore up their balance sheets. The major banks are trying to pay back government TARP funds and are now in better position to lend to consumers and corporations.
- **Consumer Attitudes Recovering:** Consumer Confidence, the driving force behind 2/3 of our GDP, jumped at the fastest pace in over six years.
- **Credit Un-Clogging:** Credit spreads narrowed (i.e., loss expectations are coming down) and corporate debt issuance surged nicely in May.
- **Promising Economic Future?:** Maybe rising interest rates (longer maturities) is a leading indicator of an improving economy in the months to come? Makes sense to me when one considers the inverted yield curve (short-term rates higher than long-term rates) accurately forecasted the recession in 2006.
- **Housing on the Mend:** Although housing pricing declines continue, unit sales have been relatively stable in recent months. Despite a small short-term bounce in mortgage rates, home affordability still remains incredibly healthy and a lot more activity is occurring at the lower-end of the housing market.
- **Emerging Markets Rebounding:** Activity in the emerging markets is picking up. Case in point are Brazilian exports to China, which have more than doubled this April from February 2009 and are higher than levels experienced in June 2008, according to The Financial Times.
- **Commodity Appetite Returns:** Crude oil prices have about doubled since the lows reached in March, and gold prices are flirting again with the \$1,000 per ounce achieved in February of this year. The OPEC oil cartel is even refusing to implement an artificial cut in production (in hopes of pushing prices higher) because

## Why Sidoxia?



### Experience

Mr. Wade W. Slome managed one of the 10 largest growth funds in the country, at times exceeding \$20 billion in assets under management during his tenure.

Mr. Slome possesses a master's degree from Cornell University in business administration (MBA) with a concentration in finance.

Mr. Slome holds the highly regarded CFA (Chartered Financial Analyst) investment designation.

Mr. Slome maintains the respected CFP® (CERTIFIED FINANCIAL PLANNER) certification.

Bloomberg identified Mr. Slome as the 2nd youngest manager among the largest 25 actively-managed U.S. mutual funds in 2005.

### Strategy & Focus

Sidoxia focuses on diversified, tax-efficient, and low-cost investment portfolios, with the goal of achieving superior after-tax, risk-adjusted returns.

### Seminars / Events

### Sidoxia Press

### More Articles - Links...

they see a natural recovery coming in global activity.

Readers and followers of my commentary understand that I do not build my investment portfolios based on short-term gyrations in the Market, but rather I constantly allocate resources to the areas where I see the greatest opportunities, subject to my clients' objectives and risk tolerance levels. This is why I do not try to predict the short-term directions of the market. Rather I use my experience and knowledge to objectively assign probabilities to investments that I believe will provide superior risk-adjusted returns in the future. I agree with strategist Don Hays, "Nothing is certain. Good investors love uncertainty." Therefore, I cherish unclear periods like now when emotional, panic-filled decisions create a broader set of opportunities.

Certainly prices were better a few months ago, but the major U.S. equity markets are still down about -40% from their late-2007 peaks and I am still tripping over many attractive opportunities today. We all love to follow the domestic equity markets, but let us not forget about the tremendous prospects in global fixed income markets and international/emerging equity markets. Regardless of the nay-sayers calling the death to "capitalism", the other 95% of the globe's population is scratching and clawing its way to higher standards of living, many using the blueprint that the U.S. used on its path to glory during the 20th Century. So please don't forget to take off those U.S. market blinders, and join the health party of growth abroad.

Like Chess, the Stock Market can be a challenging game. In order to be successful at either game, one needs to plan based on future moves and changes in the environment. Don't get caught in a stalemate or checkmate - contact Sidoxia Capital Management for advice ([949.258.4322](tel:949.258.4322)).

#### **DISCLOSURE:**

All information contained herein is for informational purposes only. The information presented through this document does not constitute a solicitation or offer to sell securities or investment advisory services. Sidoxia Capital Management, LLC ("Sidoxia") is a Registered Investment Advisor and may only transact business in those states in which it is registered, or qualifies for an exemption or exclusion from registration requirements. No information accessed through this Sidoxia document constitutes investment, financial, legal, tax or other advice nor is to be relied on in making an investment or other decision. The information in this website is based on data gathered from sources which we believe to be reliable. It is not guaranteed as to accuracy, does not purport to be complete and is not intended as the primary basis for investment decisions. Any mention of past performance may not be indicative of future results.

## **Navigating the Fixed Income Waters**



**G**iven the downward plunge in equity markets that started at the beginning of 2008, investors have flocked to fixed income options in droves. But buyers should beware. Swimming in the fixed income markets is not like frolicking around in the kiddie pool, but rather more like swimming in treacherous, crocodile-infested waters. Not all bonds are created equally, so arming yourself with knowledge regarding bond investing risks can save lots of money (and limbs).

Bond prices move in the inverse direction of interest rates - so now that interest rates have fallen to five-decade lows, is now the best time to buy bonds? Certainly

there are segments of the bond market that offer tremendous value, but when the Federal Funds Rate (the key benchmark inter-bank lending rate that the Federal Reserve sets) stands at effectively 0%, that means there is only one regrettable direction for rates to go.

Before diving head first into the bond market, investors should educate themselves about the following risks:

**Interest Rate Risk:** With record low interest rates, coupled with massive amounts of government stimulus injected both here and abroad, the risk of rising interest rates is becoming a larger reality. Large government deficits and expanding government debt issuance can lead to inflation pressures that are correlated to upward movements in interest rates.

**Default Risk:** Bonds typically pay bondholders interest payments (coupons) until maturity (expiration), however in challenging financial times, various issuing entities may be incapable of paying its investors, and therefore may default. As the recession matures, more and more companies are defaulting on their debt obligations.

**Reinvestment Risk:** Owning healthy yielding bonds in a declining interest rate environment is the equivalent of sailing with a tailwind - however all good things must eventually come to an end. At maturity, investors must also face the risk of potentially reallocating proceeds into lower yielding (lower coupon) alternatives. For those investors relying on higher fixed income payments to cover living expenses, reinvestment risk can pose a real threat to their financial future.

**Callable Risk:** Just like ice cream comes in different flavors, so do bonds. Certain bonds come equipped with an add-on "callable" feature that allows the issuer to retake possession of the bond for a predetermined price. In periods of declining interest rates, as we have experienced since the early 1980s, this advantageous option has been included repeatedly by many bond issuing entities. Prepayment risk for mortgage securities can also lead to suboptimal investment returns.

**Liquidity Risks:** This whole banking crisis that our global financial system is currently digesting has highlighted the importance of liquidity, and the painful clogging effects of illiquid fixed income securities. Forced sales of illiquid securities (due to lack of buyers) can lead to unanticipated and drastically low proceeds for sellers.

Overall, bonds offer tremendous diversification benefits to an investment portfolio and with the exploding baby boom generation entering retirement these fixed income vehicles are attractive. Just remember, before you dip that toe into the bond market waters, beware of the lurking risks hiding below the surface.

**Wade W. Slome, CFA, CFP**  
**Sidoxia Capital Management, LLC**  
2901 W. Coast Highway (PCH), Suite 200  
Newport Beach, CA 92663  
949.258.4322

**[www.Sidoxia.com](http://www.Sidoxia.com)**

**Plan. Invest. Prosper.**