



# MARKET OUTLOOK

A publication of Strategis Financial Group and MarketOwl.com

## New Year starts slow after rally in latter part of 2006

The final five months of 2006 produced the strongest market advance since 2003. Unfortunately, so far in 2007, most of the market movement has been sideways.

The rally that began in August followed a significant correction that began in May and persisted through most of the summer.

Our managed strategies were generally reinvested into the market in late August and September, participating in most of the advance. For the year, performance of Strategis strategies ranged from a low of about 4% to a high of more than 20%.

With the start of a new year, it's only natural for investors to reflect on the previous year and try to make some determination about whether or not it was good. Part of that process usually involves comparing our returns against those of a neighbor or of an index like the S&P 500.

Unfortunately, these types of comparisons usually are misleading and cause a lot of frustration.

Instead, professional money managers generally aim for a specific percentage gain. For example, the target for a conservative account might be 6%. For an aggressive account the target might be 10%.

A former colleague is now working on the East Coast manag-



ing a pension fund with more than \$300 million. In 2006, the S&P 500 was up about 15%. So what do you guess would be a satisfactory return for this pension fund? Twenty percent? Twenty five?

The fund's actual return in 2006 was 11% and that return was good enough to ensure that everyone involved got substantial bonuses. Their annual target return is 8%, which happens to be a very good return over the past several years.

Since the start of 2000, any manager who has earned an average annual return of 8% would be wooed by some of Wall Street's biggest firms.

(One interesting side note, when this pension fund has posi-

tions that aren't doing too well, the managers tend to invest more money in those holdings rather than reallocating to the better-performing positions. That is the exact opposite approach that most individual investors take.)

Investors tend to have short-term, selective memories. When the stock market does well as it did for the final five months of 2006, many of us start to have unrealistic expectations about how much our investments should earn.

Let's bring everyone back down to earth with an examination of what the markets have really been like in recent years. The chart above shows a comparison of the S&P 500 (black line) and the



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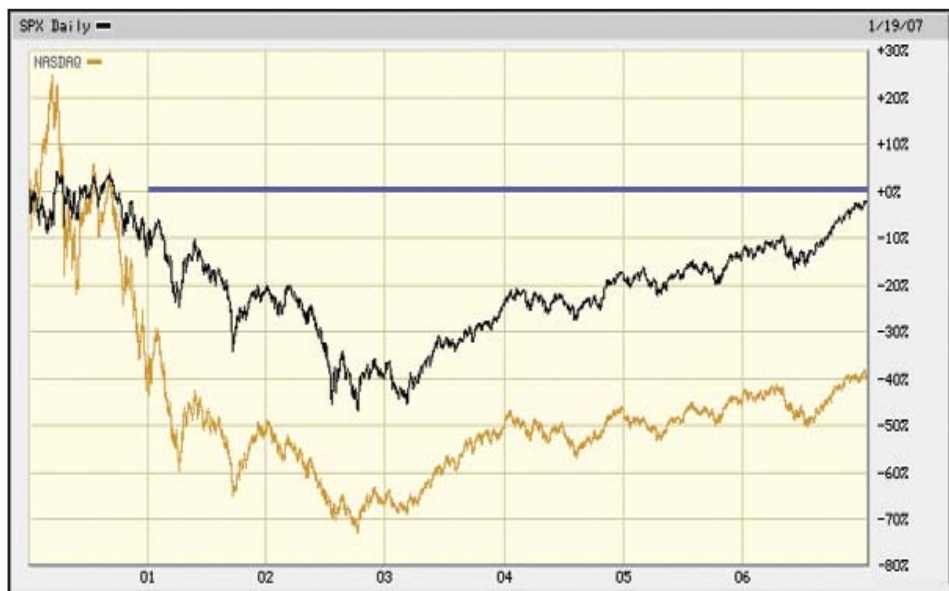
Nasdaq (gold line) since the start of 2004.

Notice that over that entire three-year period, the S&P 500 is up about 28% and the Nasdaq is up about 22%. So that is an annualized return of about 9% and 7% respectively. That doesn't seem too bad. But that number is a little misleading because investments do not advance at a steady rate.

Look mid-July of 2006. At that point the S&P 500 was up just 10% over 2.5 years and the Nasdaq had advanced just 1%. So the bulk of the gains for these indices occurred in the past six months. And if you look at the overall choppiness of these indexes for the past three years you see that it would have been very difficult to make any money at all until the past six months.

In fact, as you can see from the broken blue line that marks the zero return level, in July 2006 the Nasdaq was lower than in January of 2004!

Now let's take a longer view, back to the beginning of 2000. In 2006 there was a lot of news coverage devoted to the Dow making a new all-time high. But remember, the Dow is just 30 stocks and is a very narrow index. The S&P has 500 stocks and the Nasdaq has more than 3,200. So these indexes are probably going to give a more accurate view of how the overall



stock market is faring.

As you can see on the chart on this page, since the beginning of 2000 the S&P 500 is down about 4% and the Nasdaq is down 40%. Again the blue line marks the level of zero return. Suddenly 8% a year doesn't seem so bad!

Like so many things in life, investing is all about timing. Someone who started investing in 1995 probably made a ton of money by the end of 1999, no matter what investments he chose. But an investor who started in 2000 is lucky if he has broken even between then and now.

Since mid-December, the Nasdaq has shown some weakness. But so far it has managed to stay above critical support levels.

And the S&P 500 and the Dow are doing better than the Nasdaq. Economic fundamentals remain strong. So while we will probably see more sideways market action, there is nothing to indicate that a major correction is imminent. Certainly investors need to be cautious right now, but there are no technical or fundamental indicators pointing to sharp or prolonged bear market.

With the lower price of oil and the Federal Reserve no longer raising interest rates, 2007 could easily turn out to be the best year for investors since 2003. Keep your fingers crossed.

## Important Investor Information:

Past performance may not be indicative of future results. Therefore, no current or prospective client should assume that future performance of any specific Strategis strategy will be profitable or reach its performance objective. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment or strategy will be either suitable or profitable for a specific investment portfolio. Certain portions of this newsletter contain a discussion of various positions and beliefs as to current and anticipated market conditions, which are based upon professional judgment. However, there can be no assurance that any such position or belief will prove to be correct. In addition, due to various factors, including changing market conditions, such discussion may no longer be reflective of current position(s) and/or belief(s). Finally, no reader should assume that any such discussion serves as a substitute for personalized advice from Strategis or any other investment professional. Securities offered through Brecek & Young Advisors Inc., a Registered Investment Advisor/Broker Dealer

## New Foundation Strategy designed for core assets

All investors would like high returns with low volatility. Unfortunately, most investors can

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not tolerate the volatility and risk associated with aggressive investments.

The new Strategis Foundation Strategy is designed in an attempt to provide solid returns while keeping risk at tolerable levels. The strategy began in August 2006.

This strategy invests in high quality mutual funds. The objective is to benefit from the performance of skilled fund managers who have demonstrated an ability to provide returns that exceed a specific benchmark.

Funds selected for this strategy will normally be four- or five-star funds as ranked by Morningstar—a company widely utilized for mutual fund performance assessment.

Assets in the strategy will normally be allocated to at least six funds, but a portion or all of the assets may be moved to a money market fund when market conditions warrant such a position. Long positions may also be hedged by using short funds during periods of market weakness.

While the strategy is actively managed, an attempt is made to limit the frequency of trading to reduce the impact of short-term holding fees or penalties.

For more information about this strategy or to learn about current holdings and performance of those holdings, contact your Strategis representative.

## Avoid becoming a victim of investment fraud

As you are probably aware, I work full-time as marketing director for Strategis Financial Group, an SEC registered investment management firm headquartered in

Utah. Because of our long-term success, we are regularly solicited by people who would like us to sell their investment strategy to our clients. We were recently approached by someone offering us the opportunity to sell a fraudulent strategy—something that is not uncommon.

I thought by describing how this strategy is designed it might help some of you recognize and avoid similar fraudulent attempts to steal your hard earned investment dollars.

### Recognize fraudulent claims

This scheme was promoted to us as a currency trading strategy that produces a guaranteed return of 24% a year. Income would be paid monthly at 2%.

Already that is enough information that it should send alarms clanging in your head. No legitimate investment strategy or firm can guarantee returns that high. Current guaranteed return rates are about 5% maximum and are only available on products like certificates of deposit (CDs), some fixed income products (bonds) and variable annuity riders.

Anyone who could produce currency returns of even 12% a year would have Wall Street's biggest firms offering him a multi-million dollar salary.

Another warning sign was the fact that neither the person offering the product nor the one doing the trading were licensed in securities.

Now let me explain how someone can set up such a fraudulent investment to make it seem legitimate.

How can someone produce guaranteed returns of 24% a year? First, the return really isn't guaranteed. Second, the investors are paid with their own money.

Imagine that I convince you to invest \$100,000 in this type of cur-

rency trading scheme. I am going to put the money in my account, and then set up a separate account for you. Each month I am going to deposit \$2,000 into your account.

### Paid with your own money

This money comes from your original \$100,000 investment. If you happen to be someone living on a fixed income who was previously invested in the stock market, this is going to seem wonderful to you. You are getting a regular monthly payment that is much higher than you could get anywhere else and you are not seeing monthly fluctuations in your account value like you did when you were invested in the stock market.

After six months or a year, you are going to start referring your friends to me because you are so pleased with the steady monthly return you receive. Many of them will sign up based on your recommendation. Some may express initial skepticism, but you will assure them that while you also had concerns, you have gotten your \$2,000 a month every time as promised. You might even show them your account statement to convince them.

As your family, friends and neighbors sign up, I follow the same pattern for each of them. As my initial investor, I can continue to pay you your \$2,000 a month for four years until your initial investment of \$100,000 is used up.

At that point, I have to make a decision. I can continue to pay you \$2,000 a month from money I've collected from others, or I can simply shut everything down and disappear. Realistically that decision will come after about three years, because I will have taken a good chunk of your original investment for myself—after all, I need to get paid, too.

Let's imagine that over the

course of three years, with strong testimonials from you and others, I am able to convince 100 people to invest \$100,000 each. That is a total of \$10 million. My plan is to take 15% or \$1.5 million for myself. All the rest I am going to pay back to the investors in monthly increments.

As the end of three years approaches, I'm going to start expressing some concerns about the currency markets. But you probably won't pay much attention, because you are still getting your monthly payments. Besides, by now you trust me completely and we are good friends.

Eventually I am going to call with really bad news. One of the currency trades went bad and all the money is gone. I'm going to sound very upset and explain that I've lost all my personal money as well. Perhaps I'll even put my fancy home up for sale.

Naturally you are going to be unhappy. But as you start to evaluate the situation, you realize that you really only lost \$15,000. All the rest was paid back to you at \$2,000 a month. Heck, you've probably taken much bigger losses in the stock market through the years.

It doesn't take long for you to accept your losses and move on. You might even feel sorry for me as you drive by my home and see the for sale sign. You might hear through the grapevine that I had to sell my Lexus and start driving a used Buick.

In the end, we might remain friends and a couple of years down the road I might approach you about a new investment opportunity.

### Investment fraud is common

I assure you that this type of scenario takes place constantly. It might be described as an international bond strategy or as "kind of

like a hedge fund." If the payouts are kept more reasonable—say 15% a year—the person operating the scheme can keep it going for five or six years.

If the swindler chooses his victims carefully, chances are there won't even be an investigation in the end. Everyone will accept their losses and move on. Besides, the victims don't want to report on a friend who seemed to be just as taken in as everyone else.

Even if some disgruntled investor goes to the authorities it is unlikely anyone will take much interest. After all, out of 100 investors there are only a few complaints and no one lost very much money.

Chances are the paper trail would be very complicated and difficult to explain to a jury. Besides, many of the investors would be willing to testify that I'm a great guy who just ran into some hard luck. They don't really hold me accountable.

This particular type of financial fraud is known as a ponzi scheme. There are many variations and there are many other types of scams designed to separate you from your money.

Generally these schemes will be pitched as bond or currency strategies rather than stock trading programs. It is easy for individuals to track stock performance and these folks don't want anyone to keep tabs on their activities.

### Take steps to protect yourself

If you want to avoid becoming a victim of an investment scam, there are a few steps you can follow to protect yourself:

- Invest only with licensed securities firms. Licensing is no guarantee of honesty, but licensed firms are held to much higher levels of scrutiny.
- Don't be unrealistically

greedy. It is possible to make 50% in one year in an investment. But if someone is claiming outrageous returns year after year, don't believe it.

- Choose firms that have been around awhile. Any type of investing has both up and down markets. Choose a firm that has survived both. If someone says he has been in business a long time and never had a loss, he is lying.

- If it sounds too good to be true—you know the rest. Be wary even if the person is a friend or family member.

- Don't chase speculative investments with money you can't afford to lose. Understand that risk and reward are inseparably connected. The higher the potential return, the higher the risk.

—*Flint Stephens*

*Mr. Stephens is marketing director for Strategis Financial Group. He has been a writer and editor for numerous investment publications. He has a masters degree from Brigham Young University.*

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