



Thought for the Week: Monday, October 4th, 2010

First the Good News...and then the Bad News

The Good News for Conservative Portfolios...

All DIAS Portfolios have experienced excellent year to date appreciation. **The Conservative Income Portfolios have appreciated well in advance of our 'normal' projections.**

Although this performance has an element of "a rising tide floats all boats", our allocations have worked well thus far. Bear in mind, we have also maintained diversified investments in these portfolios that are intended to protect capital and have therefore not helped performance in rising markets. If the direction turns, these investments should reward. In all markets these diversifiers help dampened volatility.

We have a number of 'hedgies' in the conservative portfolios and have kept durations low while still participating in rising asset values and paying around 6% of income.

Have Bonds Peaked – is the Bubble about to Burst?

Our current thought is that the U.S. Government will launch the good ship Q.E. II (Quantitative Easing Two: the second round of pumping money into the macro economy by buying securities and placing them on the Fed's balance sheet).

Q.E.II will probably cause bond yields to fall further; therefore prices may continue to rise. The bubble may still have a ways to inflate. That said, the first question we ask ourselves every morning is "can we see any inflation or interest rate rises on the horizon?".

...and now the Bad News for Conservative Portfolios

When the price of an income paying security rises, the current yield percentage falls, even though the actual dollar payment value remains the same. Existing investors who bought at lower prices still get their original income levels; it's just the currently quoted yield drops.

For the income-paying DIAS portfolios, **current yields have fallen with rising portfolio values. This may be considered bad news but we would disagree.**

There's always some liquid in the Glass

Is the Glass Half Full or Half Empty? I was always taught that in both scenarios **there's always some liquid in the glass** - so cheer up!

When our most conservative portfolio has a double-digit total return for the year to date, investors should not occupy themselves with the additional risk involved in chasing extra yield. The market will generally give you something; so far this year, it has been capital appreciation and DIAS investors have drunk from the fountain.

We will continue to monitor the situation as rising interest rates and yields will cause fixed income prices to fall. This challenge shouldn't appear this year, but we are drinking lots of milk in preparation.

Behind the “Screens”

We are regularly asked how a smaller, focused investment team can **monitor everything that's happening in today's global markets across the breadth of diversified asset classes** we consider for inclusion in DIAS portfolios.

The most important factor in our success is Focus: we concentrate on not being in the “wrong” asset class while allocating the majority of our capital to the “right” asset class. This allows us to save time and complexity by ignoring many of the thousands of global securities most managers spend time performing exhaustive research on.

Another reason is **our investment in information technology and the amount of time we spend “behind the screens”**. The screen below shows the Economy screen from Bloomberg and the indicators it displayed over a sample two day period – this is one of numerous similar screens that we custom filter for items that may interest us.

<HELP> for explanation. EquityECO
 9<GO> to set as default calendar

1) Custom Calendar 2) Settings 3) Alerts 4) Export Economic Calendars

Region North America Country United States Type All Types 
 Date 10/05/10 - 10/06/10 11:40:22 United States: All Types

Date	Time A M	Event	Period	Survey	Actual	Prior	Revised
11)	04-05	OCT	NY Equity Options Conference				
12)	10/05	09:00	Treasury's Miller at Futures Industry Association in New York				
13)	10/05	10:00	ISM Non-Manf. Composite	SEP	52.0	53.2	51.5
14)	10/05	11:00	U.S. Fed to Purchase Notes/Bonds				
15)	10/05	11:30	U.S. Sells USD25 Bln 4-Week Bills; High Yld 0.135%				
16)	10/05	15:20	Treasury's Warren at Panel Discussion in Washington				
17)	10/05	16:30	API U.S. Crude Oil Inventories	OCT 1	--	--	-2415K
18)	10/05	16:30	API Cushing Crude OK Inventory	OCT 1	--	--	-399K
19)	10/05	16:30	API U.S. Distillate Inventory	OCT 1	--	--	-2814K
20)	10/05	16:30	API U.S. Gasoline Inventories	OCT 1	--	--	3018K
21)	10/05	17:00	ABC Consumer Confidence	OCT 3	--	--	-45
22)	05-06	OCT	World Business Forum, Radio City Music Hall				
23)	10/06	07:00	MBA Mortgage Applications	OCT 1	--	--	-0.8%
24)	10/06	07:30	Challenger Job Cuts YoY	SEP	--	--	-54.5%
25)	10/06	08:15	ADP Employment Change	SEP	20K	--	-10K
26)	10/06	09:00	Treasury's Geithner at Brookings Institution				
27)	10/06	10:30	DOE U.S. Crude Oil Inventories	OCT 1	400K	--	-475K
28)	10/06	10:30	DOE U.S. Gasoline Inventories	OCT 1	0K	--	-3469K
29)	10/06	10:30	DOE U.S. Distillate Inventory	OCT 1	-1000K	--	-1265K

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2010 Bloomberg Finance L.P.
 SN 198019 H204-355-0 05-Oct-2010 11:40:22