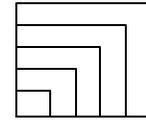


Money Show 2008



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Highlights from Notes

I. Robert McTeer, 36 years with Federal Reserve, TX, “Inflation or Stagflation?” (Monday, 5 pm.)

- A. This is a supply-demand pull inflation rather than a cost-push inflation.
 - 1. Thus stagflation is unlikely.
 - 2. Productivity is higher, labor is in a weaker negotiation position, and taxes are lower.
 - 3. We will see higher inflation and a strong GDP.
- B. Productivity growth happens in spurts or chunks, i.e. the past ten years.

II. Harry Dent, “The Great Crash Ahead: 12 Steps to the Next Great Depression” (Monday, 5:35)

- A. The decline since October is the beginning of the slowdown. Baby Boomers will begin to reduce spending in the next two years. Decline of Harley Davidson an example of demographically induced decline.
- B. All asset classes will decline (stocks, bonds, commodities, real estate, etc.)
- C. He thinks the emerging markets and commodities have another year of appreciation.
- D. Housing won't come back for years. We are half way into a 40% decline.
- E. Europe's decline will come later than that of the U.S.
- F. India has the best long-term growth prospects.
- G. Deflation will begin in 2010.
- H. Foresees a dramatic rise in bond rates. When up there, lock them in as per the 70's.
- I. [Very much a pessimist. For someone so authoritative and sure of himself, his mutual funds sure do poorly. I'm not sure if the depression he was referring to was economic or his personally.]

III. Newt Gingrich, “Winning the Future Under the Next Administration” (Monday, May 12, 6:25)

- A. [Very political speech. Little data or logical progression.]
- B. The near-future is unknown; the long-term future is more clear (and inevitable).
- C. Obama is not in touch with reality. [His reality?]
- D. Oil problem is caused by U.S. govt restriction on offshore drilling. Oil prices will be lower in 20 years.
- E. He advocates having an energy policy that would lower prices and produce more energy.
- F. When Reagan deregulated natural gas, the prices collapsed.
- G. Lot of anti-government railing; government should be more like entrepreneurs. [So why have Republicans not fixed it in all those years of their political control?]

IV. Frank Cappiello, “Investing in an ‘Ailing’ Stock Market” (Tues 7:45 am)

- A. Sees new market highs in next 12 months, driven by money supply, momentum and mergers.
- B. Europe will be buying U.S. banks and mfg.
- C. U.S. midcaps will expand abroad.
- D. Dollar could rise this summer, but long-term is in jeopardy.
- E. Debt will bankrupt the U.S. in the next 10-20 years.
- F. Higher capital gains taxes on the fat cats will precipitate a stock decline.
- G. Price of oil will go up unless someone takes on the environmentalists and NIMBY to permit drilling offshore and on the North Slope.
- H. China is the place to be with infrastructure buildout. Labor is priced at 3% of U.S. and will stay that way.
- I. India is where China was 10 years ago, and has better long-term prospects.

An alternative to mutual funds.

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- J. Doesn't see a catalyst to get Japan going.
- K. Eastern Europe is also the place to be because of cultural centers, trained workers and low wages.
- L. Now is the time to buy stocks; when things look good stocks won't be cheap.
- M. Likes Brazil, esp EWZ and ILF.
- N. Bank stocks are the current junk bonds.
- O. Stock picks: BMI, HD, COST, DIS, COP.

V. James Trippon, "Stock Investor Digest" (Tues, 8:45 am)

- A. I realized afterwards that this was billed as a promotional rather than an educational presentation.
- B. The key to understanding the Chinese is to understand their Roger Dangerfield complex of "Can't get no respect." They want respect, even if they may behave at times as if it is irrelevant.
- C. The safest way to invest in Asia is to do value investing (low P/E).
- D. His newsletter had 39% returns in 2006, 58% in 2007.
- E. Ignoring the faster growth rates, can buy lower P/Es in China than the S&P 500.
- F. Local knowledge yields larger profits; his is the only newsletter with an office and full time staff in China.
- G. He uses ADRs and buys blue chips which have English web sites.
- H. He uses stops.
- I. Big on Taiwan and Singapore.

VI. Bernie Schaeffer, "The Contrarian Secret to Identifying the Most Profitable Sectors for 2008-2009." (Tues, 11:30 am)

- A. He adds a Sentiment Cycle as a third approach to traditional fundamental and technical analysis. [He ignored quantitative analysis as the third approach.]
- B. Contrarian sentiment is a dimension separate from price.
- C. Buy on low expectations; avoid euphoria stocks that top out.
- D. Metrics: buy contrarian to magazine covers. Also use puts and calls ratios.
- E. GE sentiment is stronger than its fundamentals, making it a poor buy.
- F. At the moment, we are in an extreme of bear sentiment, making it a time to buy.
- G. Most in despair: Homebuilders, brokers.
- H. www.SchaeffersResearch.com

VII. Nicholas Vardy, "How to Become Your Own 'Hedge Fund' Manager." (Tues. 2:15 paid session)

- A. When you get a tip on a stock, how do you fit that into the bigger picture of allocation and portfolios?
- B. Mutual funds are very different than hedge funds. Mutual funds are all about relative rather than absolute gain. For most, it is against the law (or prospectus) to be in cash. There is no risk management. It is a very regulated environment (so that the advisor can plug pieces into allocation planning).
- C. Hedge funds are about absolute return. They can go long or short. It is like chess compared to checkers for mutual funds. Paid on a 2% plus 20% formula; if tanks they simply end it. The key is sophisticated risk management systems.
- D. Good hedge fund managers
 - 1. It is hard for intelligent people to find themselves wrong, (and thus work in a probabilities environment).
 - 2. On Myers Briggs, 2% of the population are INTJ while 55% of successful traders are INTJ [as am I].
 - 3. Good poker players make good traders.
 - 4. Trading is making sure you manage cash so as to stay in the game long enough to win.
 - 5. You need to know the risks you are taking and have the skill or smarts to know what is luck.
 - 6. The trader with the best results on a big bet is likely to be the worst trader.
 - 7. Soros succeeds not by making valid predictions but by exiting when it isn't working with minimal damage.
 - 8. Kovner: It is like painting a picture. Some strokes are right and some are wrong, but you are always painting a picture and sometimes painting over.

- E. Elements of success
 - 1. Proportion
 - a. Entry 10% of success factor
 - b. Exit 50%
 - c. Position size 40%
 - 2. The reliability of entry rarely exceeds 55%.
 - 3. He set exit stops based on Average True Range.
- F. Average True Range
 - 1. After the break, he presented (and offered to e-mail) a spreadsheet that calculates the appropriate size of position such that each position in a portfolio has the same amount of risk.
 - 2. Risk = volatility (as measured by ATR) x position size.
 - 3. He pulls Average True Range (ATR) from www.barchart.com
- G. [I came home and decided to apply this to my portfolios. Rather than key in the ATR for 169 unique positions, many of which are in multiple accounts, I looked up the formula for ATR, calculated it from a download of price data from Tele Chart, and used the lookup function to import the data into my pivot table analysis by strategy, portfolio and account. So far, I see two problems.
 - a. Using the typical 14 day ATR ignores longer-term trends and risk, and will be distorted if the period overlaps events such as an earnings report.
 - b. ATR is based on price data rather than proportional volatility, giving a higher ATR for higher priced stocks. An ATR of \$1 on a \$100 stock is only 1/10 as significant as a \$1 ATR on a \$10 stock, although each will give the same ATR.]

VIII. Joe Battipaglia, “Risk is Back. Where are Returns?” (Tues. 6pm)

- A. Gave a very interesting narrative as to how he saw economic and market events unfold.
- B. Favors Germany, Brazil, South Korea and U.S. large caps that have a long perspective and international exposure.
- C. Because fixed income has negative real returns, the market is going towards higher risk and will drive up prices on investments such as more risky stocks with 12% dividends.
- D. Likes stocks such as ALY, JOYG, SLB, GE, JNJ, G, KFT, PNC, USB, BX.
- E. There is a place for emerging market debt, but not now.

IX. Bryan Perry, “Extreme Income Investing”. (Wed. 2:15 pm)

- A. He was selling his newsletter, “The 25% Cash Machine” which gives income stocks in the 11% dividend range. \$349/year.
- B. [His strategy was remarkably similar to my High Income portfolio. Neither in his presentation or in his newsletter did I see a performance record, even if his “goal” is 25%. I came home and compared his buy list to my High Income portfolio, and was surprised to find we overlapped on only two positions. Only one or two of his positions even merited consideration. My selection method is more straightforward. He had a packed room. What was interesting was how people prefer an authoritative voice to a simple but elegant strategy they could deploy on their own.]

X. Jason Browne, “FundX Upgrader Tactical Fund – Pros and Cons of Actively Managing Market Risk.” (Wed. 3:15 pm)

- A. [This was billed as a promotional session. I went because Fund X has good results per Hulbert’s Financial Digest, and a friend has encouraged me to either subscribe or mimic their approach. I came into the session after it had started and so missed the introduction. Janet Brown sat at the table by the podium smiling throughout his presentation and never said anything. My understanding was that the firm was started by his mother, and now is going through a succession process. I’m now sure why one name is Browne and the other Brown. Jason spoke rapidly and was very knowledgeable, (in contrast to my impression of Tony Muhlenkamp who is also a family succession).]
- B. The key is to be systematic. They have Trend Change Indicators (not revealed) based on sentiment, valuation (P/E), market participation, the environment (Fed rate changes, etc.), and breadth divergence.
- C. They have 10 models, using both ETFs and mutual funds. They both publish newsletters and have mutual funds.
- D. www.fundx.com and www.upgraderfunds.com 800 323-1510

XI. Howard Kaye, “Optimize Your Assets and IRA.” (Wed, 4:15 pm)

- A. [This is another family succession. A mutual friend insisted I meet Howard’s father, Barry Kaye, in his Manhattan top floor office once during the 80’s. The presentation was in story and example form, and flowed faster than I could begin to record in notes. Written material was distributed and is available.]
- B. He made a very persuasive case for the tax and high-return benefits for persons 70 or older with assets exposed to estate taxes.
- C. He draws heavily on Life Settlements and adverse selection (although he didn’t use that term) in selecting insurance carriers and policies. He is willing to leverage for his client, even when the insurance companies don’t like it. Insurance policies are not priced as accurately and uniformly as I had presumed. [Large institutions with wide-spread policies and practices are always vulnerable to those who can fit between the cracks.]

XII. Stephen Biggar, Director of Equity Research at S&P, “Companies with Sustainable Competitive Advantage.” (Wed, 6 pm)

- A. S&P has 60 analysts under his direction who basically follow a growth at a reasonable price approach (GARP) using both top-down and bottom-up.
- B. Their 5 stars stocks have an annual return of 15.4% since 1986.
- C. He monitors the balance between their Strong Buy, Buy, Hold, Sell and Strong Sell ratings. Showed chart. Right now, 91 stocks are on their Strong Buy.
- D. Current economic growth figures look pretty stable, even if unemployment is heading up.
- E. Oil estimate for 2009 is \$97, down from average of \$105 for 2008.
- F. Sustainable competitive advantage factors: brand, patents, license, management, reputation, unique skills, adaptability, barriers to entry, supply access to raw materials.
- G. Look for new product introductions, pricing power, offsetting industry cyclicalities, high return on invested capital (ROIC, a non-standardized metric), and reinvestments such as dividends.
- H. Stocks (he gave details as to why for each): BA, DIS, ETR, NOV, NWS and PG.
- I. [I see these as all fairly defensive stocks, which is consistent with the title of the presentation.]

XIII. Tony Muhlenkamp, “Investing: Where to Look, What to Buy”(Thurs, 7:45 am)

- A. [I attended primarily to see if I wanted to invite him to speak to our AAI chapter.
- B. It was hard for me to follow what he was referring to on the complex tables, and he didn’t have a pointer. Some of the data were suspect, like current inflation is at 2%(?). I didn’t think his logic held together. Stock returns are a function of inflation and P/E, but his case seemed more relevant to asset allocation than individual stock selection.]

XIV. Craig Shipman, “Blocks” (Thurs 8:45 am and Tues, 10:30 am)

- A. [Craig is a first rate presenter, with a first rate product.
- B. I subscribed to Blocks a year ago, but never found the time to get into it. Craig pointed me to Howard, who credited the \$300 unused subscription to next year!
- C. The short-coming of the product is that while it does back-testing, it doesn’t do data mining or incorporate probability determinations. It will test a screen if I put in the variables and ranges, but it won’t sort through the thousands of possible combinations to come up with the best and most reliable returns in all markets, like I can do with a data mining tool.]

XV. Overall

- A. There was more anxiety than a year ago. This observation was confirmed by others.
- B. While I didn’t attend Mark Hulbert’s presentation, none of the presentations I attended were empirical. No one presented data like one would find in a scientific or academic research article that said if you apply this methodology to these data, you have this probability of getting these results.
- C. Net value of conference:
 - 1. Background context.
 - 2. Subscribed to “China Stock Digest”
 - 3. Decided to go back to exploring with Blocks.