BONDS

Scarsdale Investment Group, Ltd.

All Bond Portfolios

Brief Communication ***August 12, 2010***

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Dear Hildy,

High volatility is characteristic of a 'traders' market. Unfortunately, this volitility creates high anxiety for the individual investor. Why is it then that investors have such a difficult time leaving the high anxiety environment of the equity markets (and the high fees, taxes and consequences of bad timing) for the relatively predictable growth and cash flow of the high quality individual bond portfolio? We believe this is due to "The Strategy of Hope."

Brief Communications are intended to address questions and concerns experienced by our clients. If you have specific questions you would like us to address, please ask here.

Best regards,

Hildy Richelson, Ph.D. - Peter Blake, Ph.D.
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The Strategy of Hope

Most individual equity investors understand they have a tendency (if not the direct experience) of buying near market highs and selling in scary downturns, yet the pattern persists. They understand that fees, commission and taxes further reduce their uncertain returns. Our 25 years of experience with investors considering an all bond portfolio tells us that stepping out of the equity casino into the realm of the relative certainty of buying high quality bonds is the most difficult decision an investor can make. Why is that?

The casino of equities, like any other casino, is very successful in attracting patrons because it offers the continuous hope of a large return. It is the expectation of most equity investors that their strategy will ultimately result in financial independence, especially in retirement. This optimism is reinforced with mantras like 'stocks for the long run,' and 'You can never retire successfully without owning stocks.' We believe that hope is not a sound financial strategy, as many have learned during the current Great Recession and the dot com bust.

Most of our clients have learned that stepping out of the casino of hope requires a ruthlessly objective look at their actual financial condition. This assessment might also include an evaluation of the worth of many of the things they have accumulated, and a decision to sell unneeded items. It might require a look at the benefits accruing from their current lifestyle, and a decision to moderate or redirect their activities into less costly pursuits. The pursuit of fulfilling work might be added to the mix if they wish to maintain their current level of expenditure.

With this view in hand, predictable future cash flows can be calculated based on buying a portfolio of high quality individual bonds. The most difficult decisions our clients confront occur when their living expenses exceed the incoming cash. If that is the case, they consume the seeds needed for tomorrow's harvest. Investors that are serious about establishing a secure and predictable financial future (and the peace, rather than stress, that goes with it), establish a strategy to bring current and future expenses into line with their predictable future cash flows. This leads to financial independence at any income level.

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Our philosophy has always been to seek out highly rated general obligation bonds, and bonds backed by revenue streams from essential services like water or sewer that generally carry the lowest risk of default. These are examples of what we call "plain vanilla" bonds in our bestselling book Bonds: The Unbeaten Path to Secure Investment Growth, (Bloomberg Press, 2007).

Just click on the link below to forward this email to your family, friends and associates who might benefit from seeing this article. We would be pleased to set up a call to discuss our bond investment program with you or anyone you might refer to us.

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