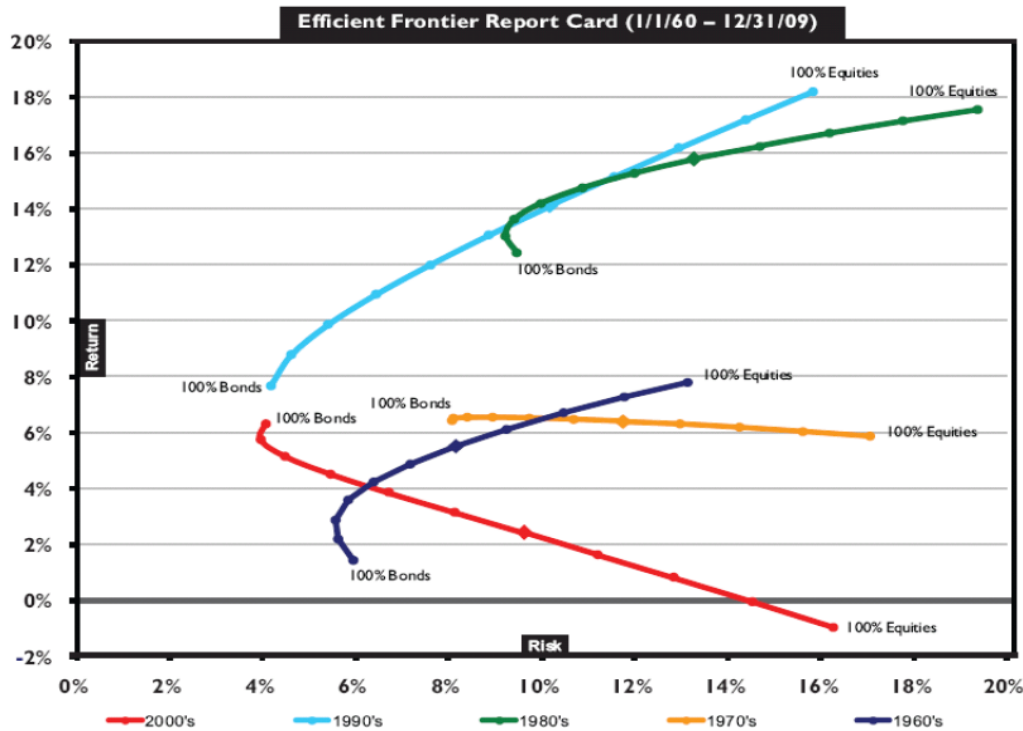


The Efficient Frontier 1960-2010 by Decade



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The "Efficient Frontier" is a visual representation of risk and reward over a 10-year period depending on the mix of stocks and bonds held in the account. Each colored line has a diamond shape in the middle of each plotted line to represent risk/reward for a portfolio that is 50% S&P 500 and 50% long treasury bonds.

I have reproduced this to show the affect of government economic policies on 10-year returns.

Please note that the 1960s, 1980s and the 1990s were decades that stocks significantly outperformed bonds. These three decades saw tax cuts, 1960's – JFK, 1980's – Reagan, 1990's Capital Gains Cut – Clinton. Policies of this type generally create a more favorable business environment.

The 1970s and the 2000s show a much different story. Both show that not only were stocks an underperforming asset, but the risks involved were very high using standard deviation as our risk scale.

I have been opining for about 2 years that the general environment for business is poor and made more so by the recently enacted "Porkulus", Health Care and Financial Regulation

Until the macro environment for capital formation and risk taking improves, I believe investors should overweight income investments over capital appreciation investments. The last 50 years, expressed in the 5 decades shown above reinforces this strategy.