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Leigh Baldwin & Co.
*Investment Brokerage*

112 Albany Street
Cazenovia, NY 13035
www.leighbaldwin.com


## DO YOUR INVESTMENT DECISIONS MAKE SENSE?


800-659-8044 www.leighbaldwin.com

# Leigh Baldwin & Co. Investment Brokerage Newsletter

Fourth Quarter, 2005

## IN THIS ISSUE




Leigh Baldwin & Co.
*Investment Brokerage*

**Main Office:**
112 Albany Street
Cazenovia, NY 13035
315-655-2964 • 800-659-8044
www.leighbaldwin.com

**Utica Office:**
258 Genesee Street
Utica, NY 13502
315-734-1410

**Norwich Office:**
2 Hayes Street
Norwich, NY 13815
607-334-4100

**Other Offices:**
Syracuse, NY
Buffalo, NY
Clarks-Summit, PA


# What Can Maxwell Smart and Gilligan Tell us about the Markets

Unfortunately during the month of September 2005, we lost two of the most revered and well-known character actors of the past forty years. Don Adams, who played Maxwell Smart for five years on the television series Get Smart, passed away at the age of 82 on September 25th. Bob Denver, who defined the role of the little buddy Gilligan during a brief three year run on the comedy series Gilligan's Island, died on September 6th, 2005. In both cases the actual series lasted a short time, but for baby boomers, these sixties entertainment icons lived on and on in the form of re-runs for the last three decades. What was in a way frustrating for both men was that they played the roles so well, that they would always be thought of and pigeon holed with those characters of Maxwell Smart and Gilligan. It was hard to think of them any other way.

Now step back and take a look at the markets during the go-go period of the nineties. Tech stocks caught the imagination of the entire nation, if not the world. Making money from stocks like Intel, Cisco, Sun Microsystems, and Oracle gave investors a joy and a feeling of security. Unfortunately, like a series being canceled, from mid-2000 on, those same stocks that investors had counted on for huge gains, lost their luster to say the least. After five years the disappointments are stunning, Intel is down over 30%, Cisco is down over 60%, Sun is trading down over 90%, and Oracle is down roughly 60%. Yet many investors have still pigeon holed these and similar stocks in their growth portfolios.

Herein lays the problem. There were many stocks and mutual funds that played the growth and high performance role so well in the nineties that they became loved and revered and over owned. During the last five years, new stock leadership has emerged; witness the outstanding returns by the oil industry, many retailers, commodity stocks, international shares, and even the precious metals market. Yet, many investors still own stocks from the past and are not positioned for the reality that is today. Maxwell Smart and Gilligan were right for their time and will always be loved for their unique place in our culture. Their amazing success in fact limited their opportunities in the future. Now is the time to take a hard look at your current investment portfolio. Are you positioned to benefit from today's new reality? Please contact us to review your portfolio and to let us offer a second opinion of your investments.

### Featured stocks for the Fourth Quarter 2005

Walt Disney Co. (DIS). DIS is a diversified entertainment company with interests from movies, resorts, the ABC television and radio networks, and consumer products to name a few. The stock is trading near a 40% discount from year 2000

Markets *continued from page 1*

levels and less than two times its book value. We believe that several catalysts, including a full slate of potential block buster movies and a new CEO, may invigorate the stock.

Anheuser-Busch (BUD). BUD is the world's premier brewery and dominates the US market with 49.6% market share. BUD supports a solid balance sheet and fortunately for new investors is trading near its five year low. The dividend is solid and with 10,000 BUD employees in China, a market that already is larger than the US, the company is positioning for long-term global growth of the brand, as international sales accounted for over 25% of the company's consolidated earnings growth.

Genesee-Wyoming Inc. (GWR) GWR is a railroad serving North America, Mexico, Canada, and Australia. The have achieved significant growth through key acquisitions. They are uniquely positioned in commodity strong regions, like Canada and Australia, to bring the goods to market at a competitive price. The stock at $32 is trading near five year highs.

**Featured mutual fund for the Fourth Quarter 2005**

Madison Claymore Covered Call Fund (MCN). MCN generates total return by combining the simultaneous purchase of common stocks and selling of options on those issues. It is a closed end fund, so it trades on the NYSE at about $15.25 per share. The dividend yield has been just under 9% and it has held its opening price of $15 since September of 2004. ■

**Investment Strategies**

# Do Your Financial Decisions Make Sense?

## *How to avoid the most common mistakes*

As an economics major in college I learned that, given the appropriate information, people would make rational financial decisions. Do you believe that people are always rational decision-makers when it comes to money? I think that as humans we take our past experiences, fears, hopes and dreams and incorporate them into many of the financial decisions that we make. A new area of academics, behavioral finance, has emerged to study the ways in which people act upon information to make investment decisions. To no surprise, the researchers have found that often investors make mistakes when it comes to dealing with their investments. Here are some of the most common errors and some ways to avoid making them.

**Most people are loss adverse.**

This means that the pain of losing $1000 feels greater than the pleasure of making $1000. At the extreme, some people are so afraid of loss may keep all of their money in the bank and stay out of the stock market altogether. Terrance Odean, finance professor at the University of California at Davis, studied tens of thousands of stock transactions over a seven-year period. He found that investors were more likely to sell their winning stocks too quickly and hang on to their losers too long. These loss adverse investors are perhaps afraid of diminishing profits in one case and recognizing a loss in the other. How do you avoid this? First, it is important to have a well-diversified investment portfolio. Not having all of your "eggs in one basket" should help to reduce the risk of long-term loss in your portfolio. In addition, you can invest small amounts at regular intervals. This is called dollar-cost averaging and can help to reduce the effects of market volatility. Dollar-cost averaging involves continuous investing in securities regardless of their fluctuating prices. Investors should consider their financial ability to continue their purchases during periods of low price levels. If you are hanging on to a losing investment try asking yourself, "Would I buy this investment again today? Does this still make sense for my situation?" If the answer to these questions is no, it is likely time to sell.

## Do Your Financial Decisions Make Sense? *continued from page 2.*

**Overconfidence is another way that investors can make big mistakes.**

Behavioral finance tells us that investors have a unique ability to forget their past mistakes and overestimate their ability to choose investments. A recent study compiled by the Security and Exchange Commission and a U. S. Senate subcommittee, on day traders and on-line investing, concluded that 70% to 90% of active traders lost money. Perhaps those frequent traders bought and sold their investments based upon their belief that their stock picking ability was better than the average investor's. Yet, most of them lost money! People suffering from overconfidence believe that their investment successes are due to their superior abilities, but their loses are due to some other cause out of their control. Do you feel that everyone around you is making so much money on his or her investments and you are missing out? Maybe they are just sharing the winners with you and forgetting about those "other" investments. How to avoid overconfidence? First, do a reality check. You are not Warren Buffett. Look honestly at your mistakes. Invest according to a sound plan and invest for the long-term. Get your investment recommendations from credible sources. Financial news on TV such as CNBC is good, but too much information will make you crazy. Studies have shown those who tune out most of the financial news do better than those who bombard themselves with information, most of which is just noise.

**Be cautious of following the crowd when it comes to investing.**

People are strongly influenced by recent investment performance. As the saying goes, past performance is no indication of future returns. It indeed is not. On average, the year after a fund ranks number one it drops off the chart in ranking. Different asset classes are in favor at different times. Unless you have a very good crystal ball to help you predict the future winners, over time it is a better strategy to have a well-diversified portfolio, than it is to try to catch the next hot investment sector.

**Call Today!**

For more information on behavioral finance read ***Why Smart People Make Big Money Mistakes***, by Gary Belsky and Thomas Gilovich. It is an interesting, easy-to-read book on the subject. Or, call your ***Leigh Baldwin & Co.*** investment broker today. ■

**"Breakfast on Wall Street"**

*Listen to Leigh Baldwin and Ken Iselmoe each week as they host "Breakfast on Wall Street" each Sunday morning at 11 a.m. on WHEN 620 AM or on Sunday morning on WKXZ 93.9 FM at 8 a.m. They will take a look at the week on Wall Street in their own inimitable style.*