

# Market Overview and Investment Outlook November 10, 2009

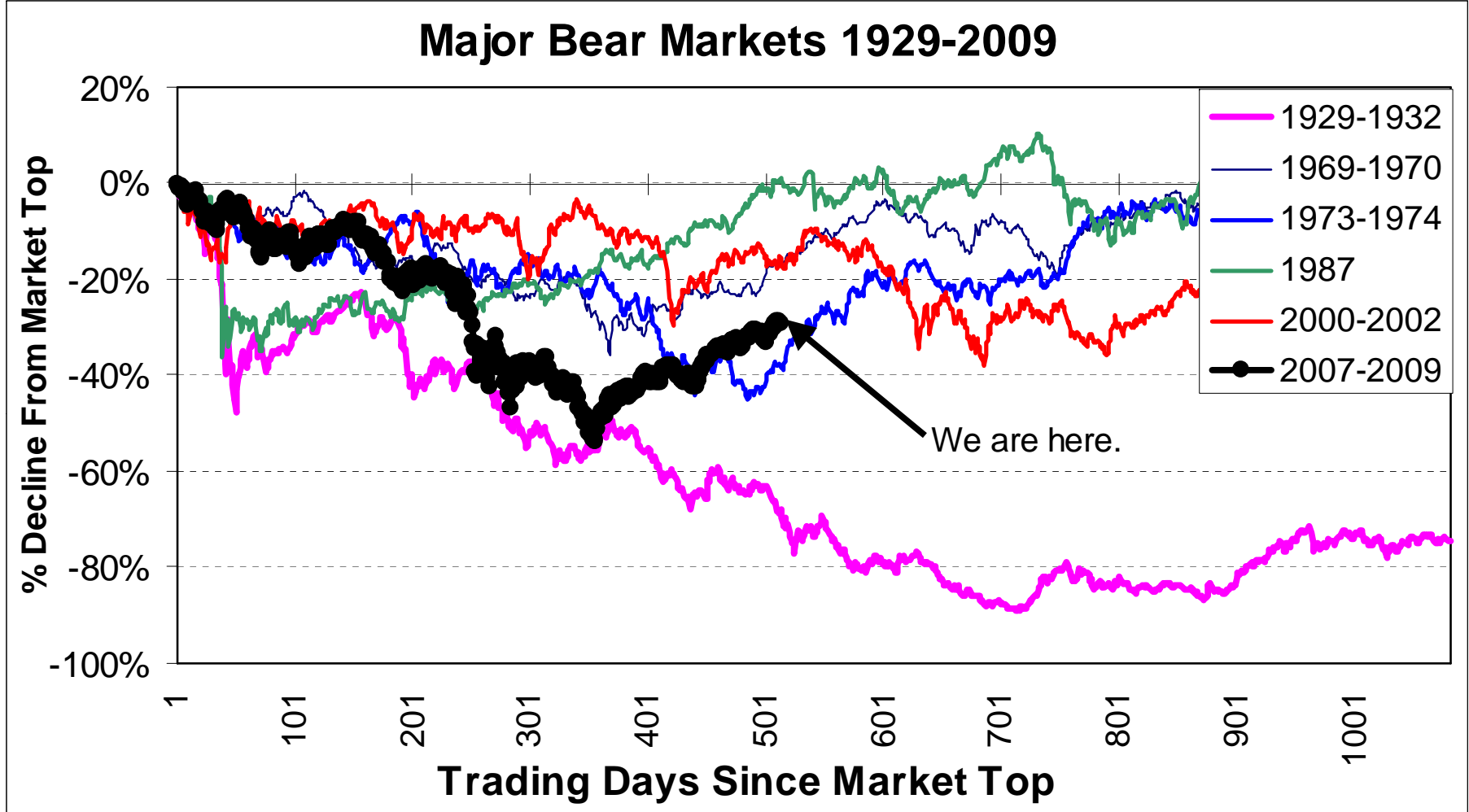
End of Year Dinner for Clients and Guests of  
**Signalert Corporation**  
**Appel Asset Management Corporation**

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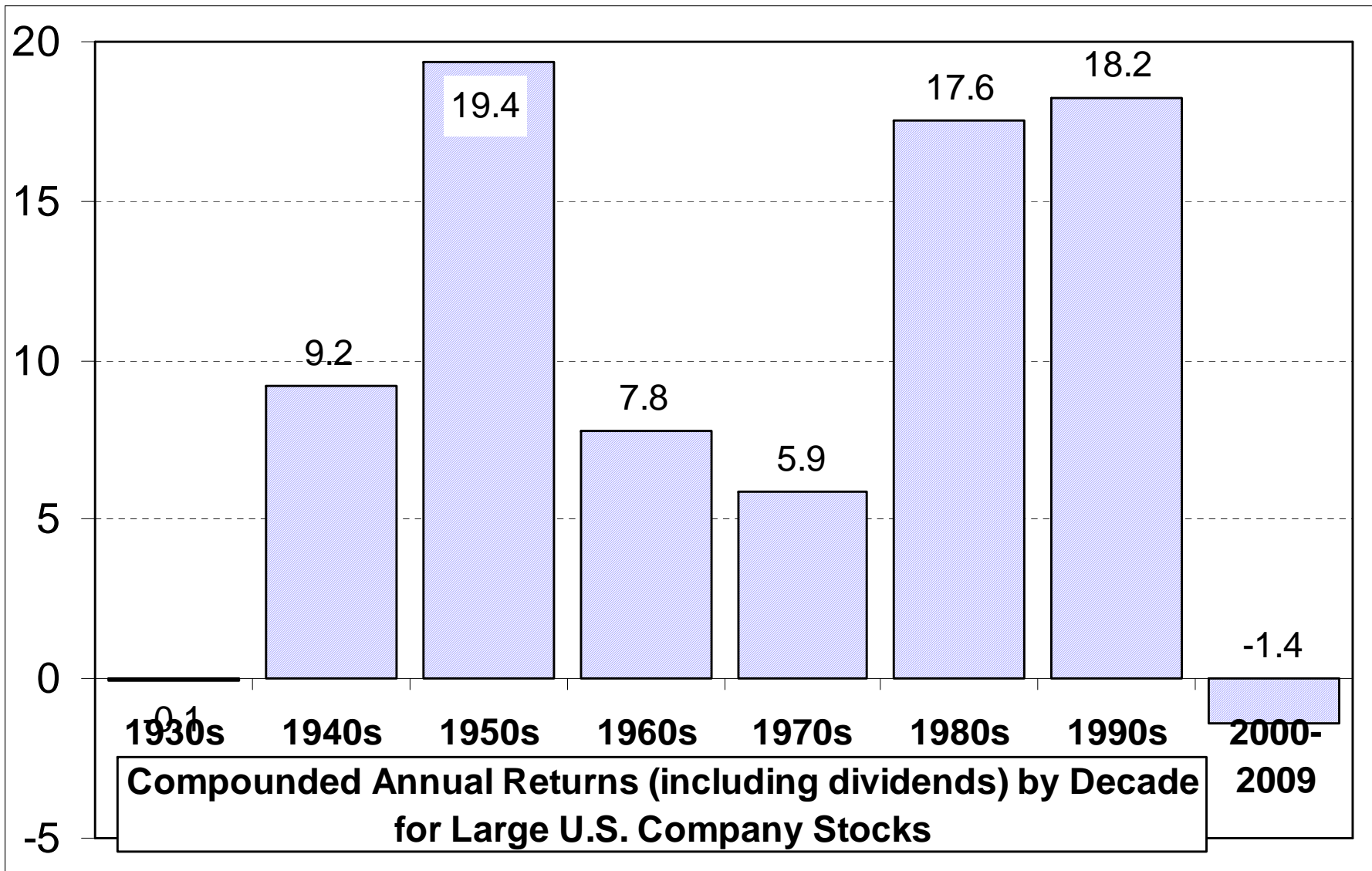
Last year: Shades of Wall St., 10/29/29



**Last year many thought that we were destined for a  
replay of the Great Depression.**



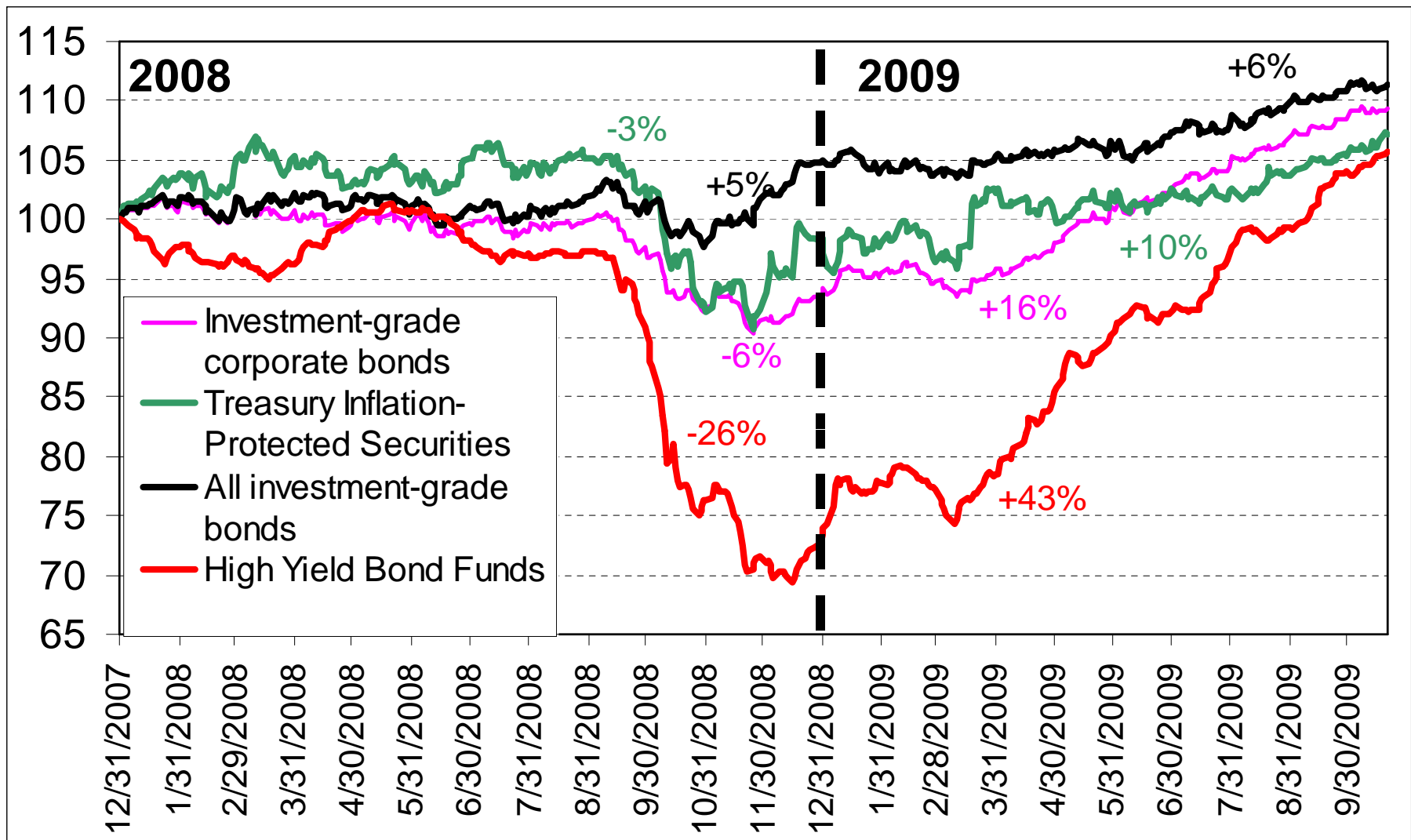
**The horizontal axis is the number of trading days from major market high points. The recent bear market was deeper than any of the 20<sup>th</sup> century except 1929-1932. Stocks lost 56% from their high to low point. Even though stocks are now 60% above their lows, they remain more than 30% from their October 2007 high.**



**Good decades have followed bad ones. The current decade has been even worse than the 1930s. Nonetheless, excellent buying opportunities arose following historically bad periods to be in stocks: 1930s, 1966-1982.**

What a difference a year makes.



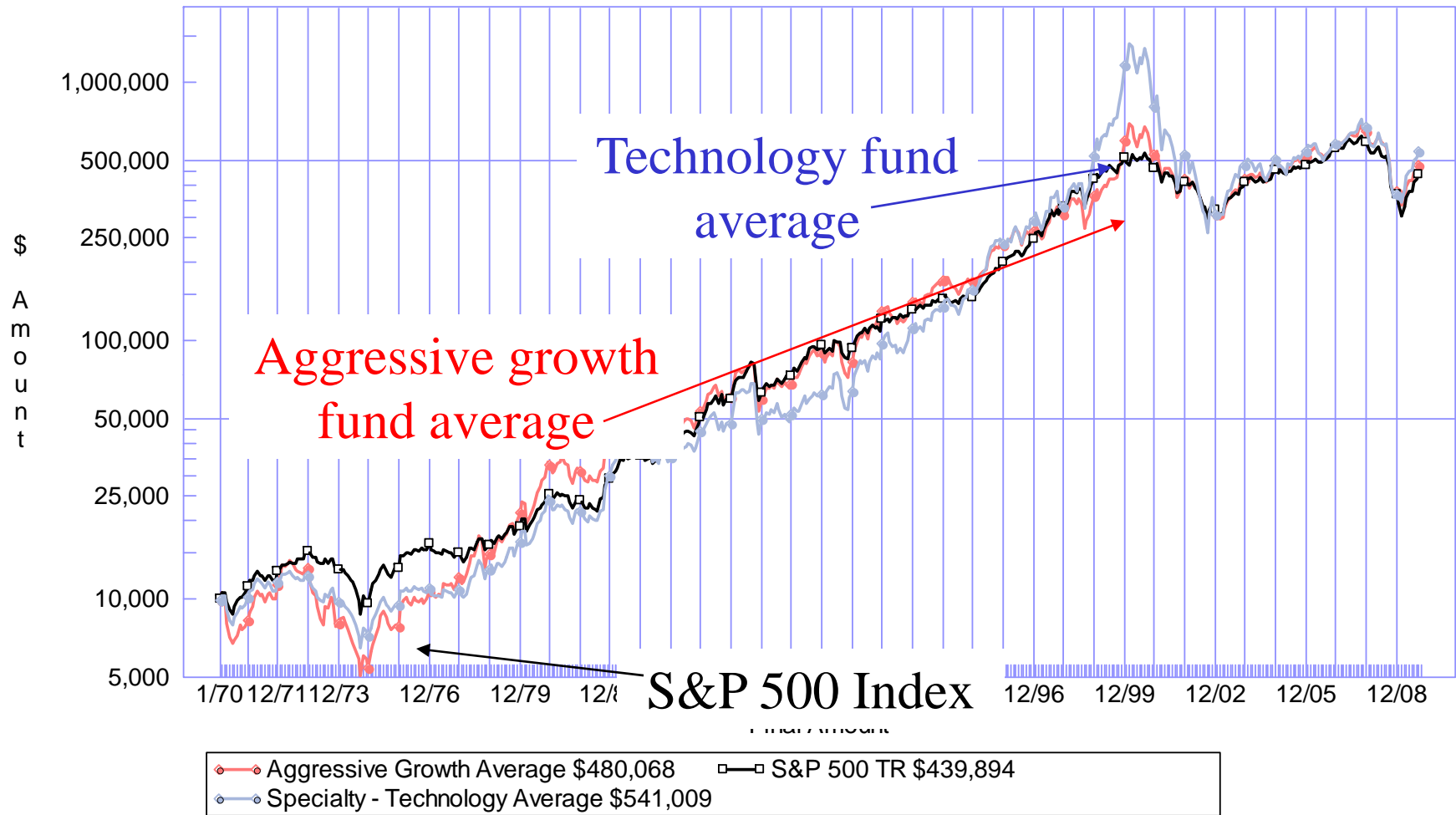


**Bonds too had losses last year but have done great this year, especially corporates.**

**(High yield data is the average of three typical funds that are in client accounts:**

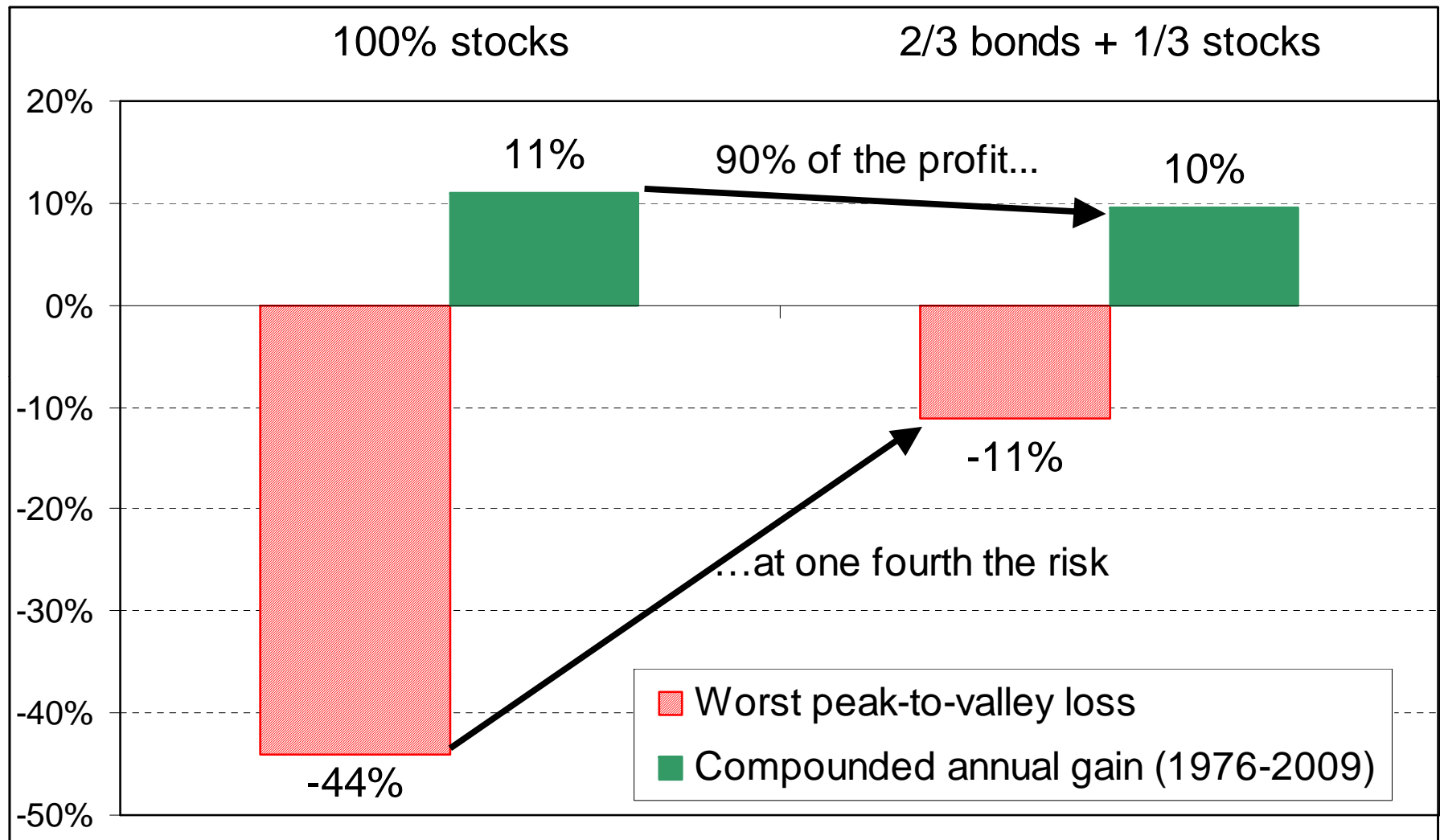
**Calamos High Yield+RiverSource High Yield + Hartford High Yield. Corporate bonds are represented by Fidelity Intermediate Bond - FTHRX. TIPS is represented by VIPSX.)**

Monthly Growth of \$10,000, 1970-2009  
 S&P 500, Technology Funds, Aggressive Growth Funds



**Comparison of aggressive growth funds, technology funds with the S&P 500 shows you would not have been rewarded in recent years by following a “buy and hold” strategy.**

# Why safety pays



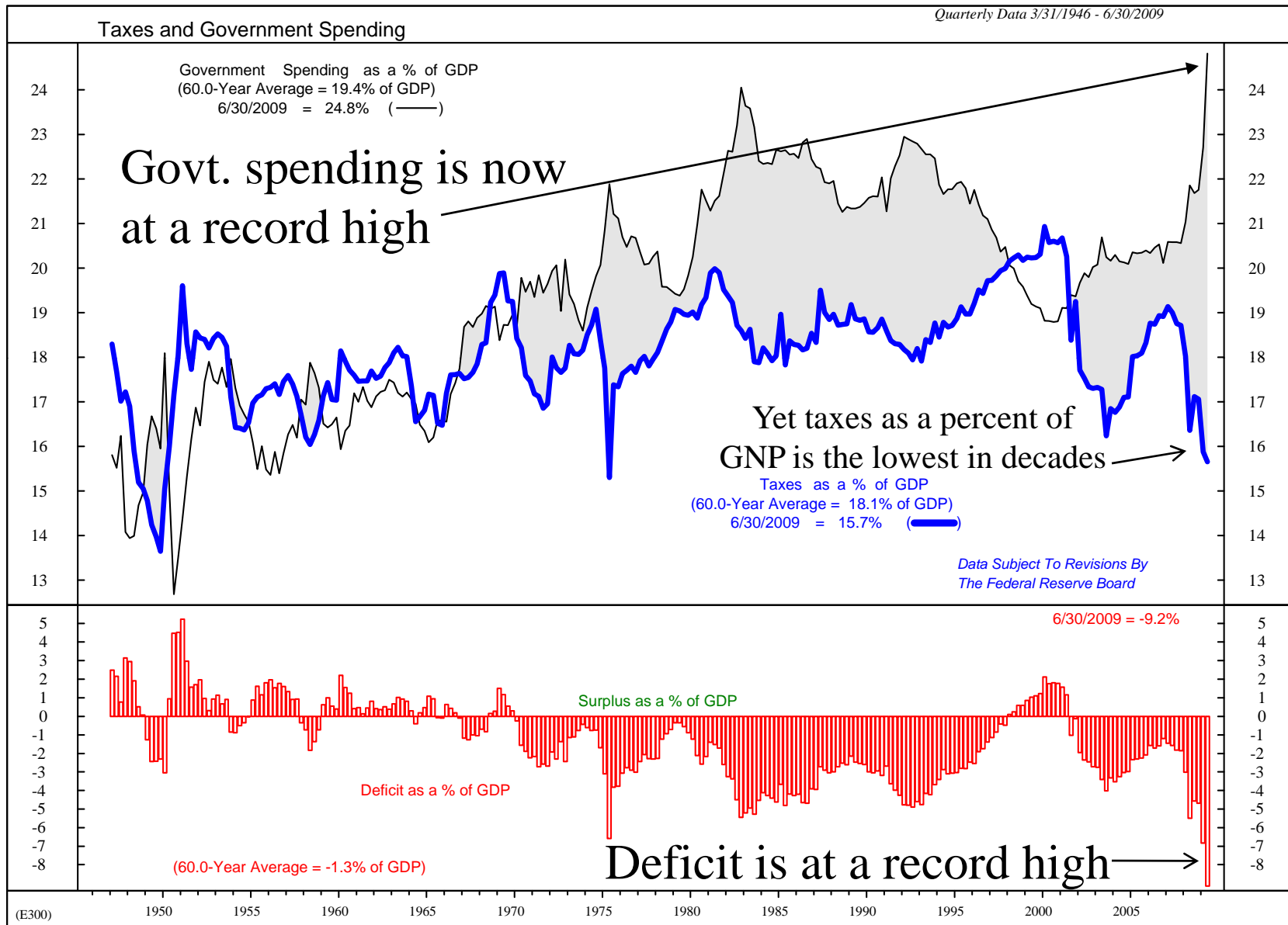
**An investment portfolio consisting of 2/3 bonds plus 1/3 stocks over the past three decades would have generated 90% of the profit with only 25% of the risk of a portfolio with all equity. (Future investment performance cannot be guaranteed.)**

# What Lies Ahead?

## New Economic Climate— recipe for slower growth

- Reduced U.S. consumer spending
- Stagnation in home values
- Higher government spending and budget deficits
- Higher unemployment
- Smaller trade deficits
- Higher personal saving

# Federal tax receipts and spending as % of GDP, 1946-2009

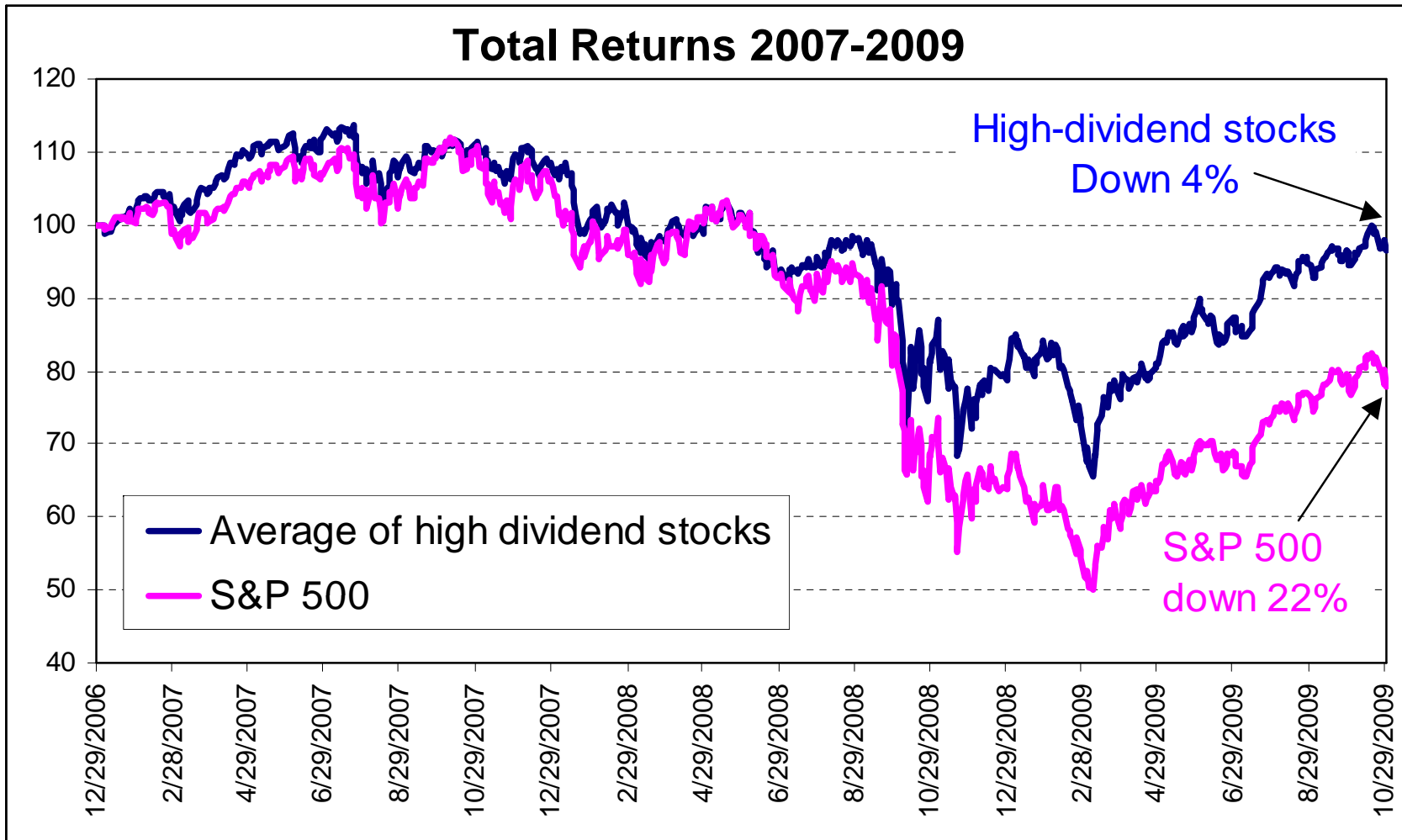


# We See These Investment Implications:

- Low inflation and low interest rates in 2010 for as long as slack remains in the economy, but both may jump in the years beyond.
- Interruption of the March-September rally in stocks with some market corrections, but with overall continued market gains.
- Long-term opportunities in developing countries and in U.S. companies with exposure there.

# Equity strategies that we are following now:

- Ongoing research into timing models.
- Individual high-dividend stocks—Safer than broad market, generate positive returns during flat markets.
- Covered call writing



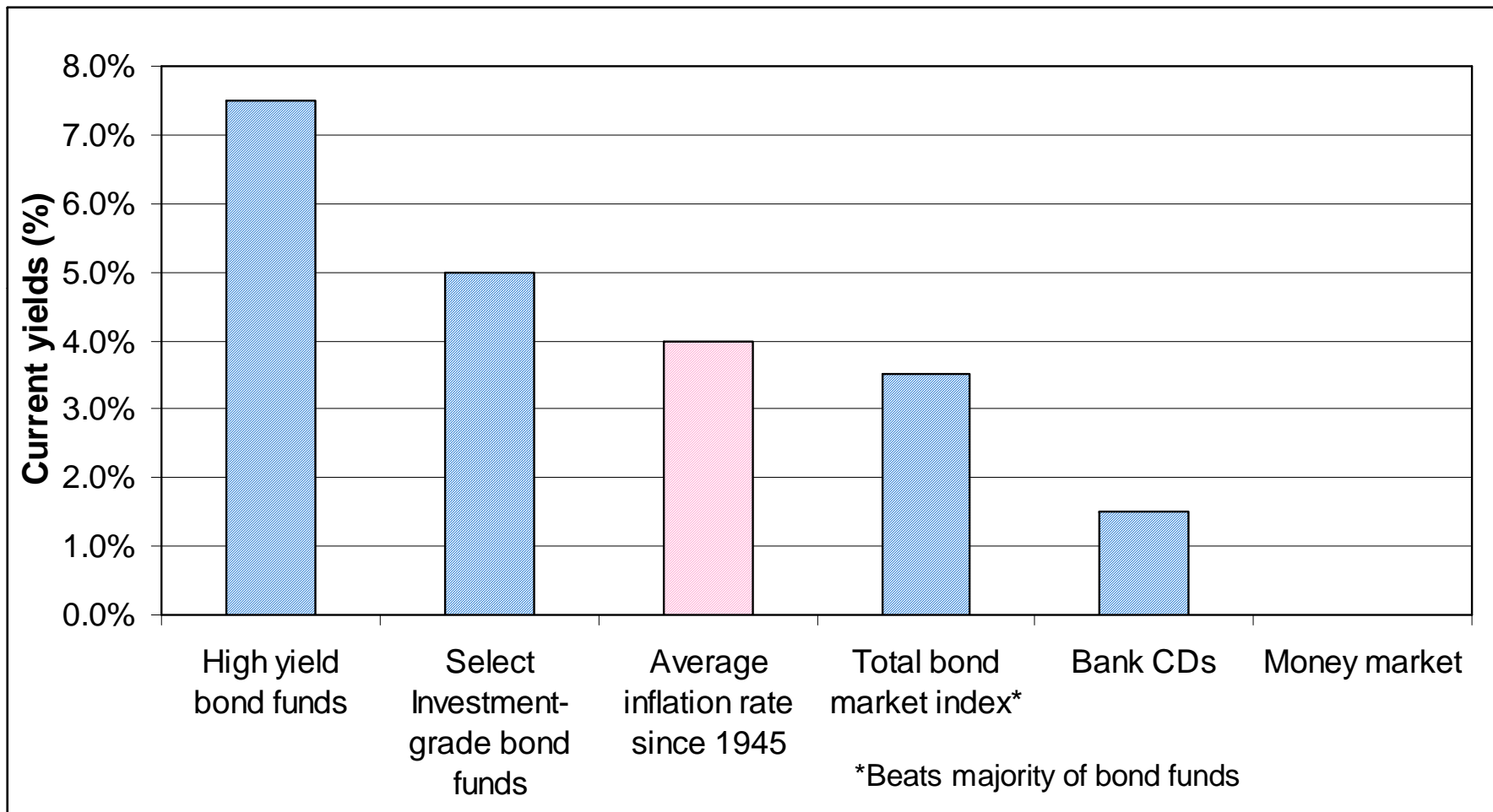
**Average yield of high-dividend stocks we have selected for clients = 6.3%:**

**LLY, BMY, CTL, CAG, EPD, KFT, NGG, NS, OKS, T, DD, MRK**

## Bond strategies for a low-yield environment include:

- High yield bond funds
- Selected investment-grade bond funds with above-average yields.
- Preferred stocks
- Keeping an eye out for individual corporate bonds when good yields become available.

# Available yields from different bond investments



**A key investment priority is to build into portfolios those ingredients that keep up with inflation.**

# Year-end tax planning issues:

- Investors may want to realize gains this year before tax rates go up.
- 529 plan contributions: Up to \$10,000 in NY State income tax deductions.
- Roth IRA: Consider converting some in 2009 if your tax bracket will be unusually low this year. Starting in 2010, you can convert regardless of your income level.
- Estate planning: No federal estate tax in 2010 (for now), so don't make any major moves until future regulations become clearer. Be careful about wills that refer to prevailing estate tax exemption amounts in 2010.

# Conclusion

- The worst is over for both the economy and for the stock market, but recovery will be choppy.
- We have developed new timing models. Based on their readings, clients of ours hold between  $\frac{1}{2}$  and  $\frac{2}{3}$  of their maximum equity positions.
- The key challenge is the search for attractive levels of investment income without taking on too much risk.
- **Investors are invited you to visit our office to discuss what type of strategy best suits you.**

*Future investment performance cannot be guaranteed.*