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RETIREMENT INVESTING

SPECIALIZING IN INVESTMENT MANAGEMENT AND ASSET PROTECTION

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Value or Growth Stocks – Which Are Better For You?

As a stock market investor, whether investing directly in common stock, or indirectly through mutual funds, you can make much better investment decisions when you consider the stock market in terms of sectors or categories of stocks. Two such major categories are growth stocks and value stocks. If you are aware of this distinction, you can make better investment choices according to your individual investment circumstances.

Growth stocks are those companies generally considered by the investing public to have bright futures, such as Intel, Microsoft, Cisco, and many other technology companies. They have high price to earnings as well as price to book value ratios. One of the problems with most growth stocks is that almost everyone is overly excited about their growth prospects. Consequently, their stock prices are high and those prices can be more susceptible to large price declines during market downturns, such as what we have experienced in the last couple of years.

Value stocks, however, are those companies generally not considered to have such bright futures, but are rather inexpensive stocks to own in comparison to growth stocks. By comparison, value stocks have rather low price to earnings and price to book value ratios. Value stocks pay relatively large dividends and are usually "out of favor." Such stocks include Alcoa, Caterpillar, and General Electric. Very few investors get excited about these firm's prospects, but value investors buy them in order to collect a higher than average dividend, to own stocks which may hold up well when the market declines, and to wait for the company's rebound phase when the company's stock price will hopefully increase in value. Although value stocks have been outdone by the investment returns in growth stocks in the mid to late 1990's, value stocks have performed better in the last couple of years.

Which stocks are better to own now? In every academic study that I have reviewed, the value approach has had superior performance over the long term. This is due primarily to the fact that growth companies are in the news, and people jump on the bandwagon and become overly optimistic about making a killing in growth stocks. When growth companies can't keep up with the overly optimistic projections, the share prices falls. Value stocks, on the other hand, are beaten down in price because no one wants to own them, they are unexciting, they may have been plagued by recent bad news, such as Philip Morris, Sears and AT&T, and their share price falls. I believe that this is exactly the time to buy them. In fact, this philosophy is the cornerstone of the Dow Dividend Theory, which systematically buys these amazingly inexpensive value stocks when they are down in value.

So why do some investors continue to chase growth stocks? For some, the excitement is just too good to pass up. Additionally, over the short term, there is no way to know whether value or growth stocks will perform better.

But if you want to be the tortoise and take the conservative approach to investment profits, value investing is for you. Just remember that no investment approach can guarantee a positive return. It is generally safe to say that conservative, long term growth investors should select value stocks. And if you define yourself as a conservative investor, you may want to look over your portfolio to insure that you have invested primarily in value stocks.

If you would like to know more about a value stock strategy that may reduce the volatility in your investment portfolio, help protect your portfolio in a down market and take advantage of other investor's ill-formed emotional reactions, check the enclosed coupon for more information about a value investing program.

Why You Should Avoid Penny Stocks

Consider:

- Many have a rule that you should never buy a stock that is trading under \$5 a share. Statisticians note that 75% of all the companies whose stocks trade for less than \$5 per share, whether on or off the major exchanges, go bankrupt over any ten-year period.
- The spread between the bid and the offer on many Penny Stocks can often be larger than the total return on the S&P 500 for a full year.
- The obscurity and low price of Penny Stocks make them tremendous targets of fraud and manipulation
- The rules and protections for individual investors are not as well policed for Penny Stocks, and often the companies are not even in the United States.

With all of the above going against Penny Stocks, many people still buy them. Some of us consider it gambling and budget accordingly. Others consider it an interesting way to invest the top 1% of their investment risk pyramid where they might lose their money nine out of ten years, but then may get a ten-fold gain on the 10th year to break even and make it worth the time and risk. Many people buy penny stocks that don't fear losing all of their investment, since that is often the result.

Dealing With A Prolonged Bear Market

There have been 10 bear markets since World War II. The average bear market lasts 15 months, according to the Leuthold Group of Minneapolis, Minnesota. Bear Markets were as short as three months in 1990, but have lasted slightly over three years from 1946 through 1949. The average loss in a bear market was -28.7 percent. The range was as little as -20 percent in 1990 to -48 percent in 1973 and 1974.

The average time it took investors to recover from a bear market was almost 15 months. That range was six months in 1990 to 70 months following the 1973 and 1974 bear market.

Here are a few things to consider when dealing with a bear market:

1. **If you have investments that make you uncomfortable, get out.** Investments that make you uncomfortable are bad choices to begin with, because whenever you make an investment, you must first consider the worst case. And if the actual performance is worse than your worst case, get out of a bad situation. Do not worry about taking a loss. Hopefully, you will reinvest in a more suitable choice and when the market rises, your new investment could have an equal or better chance of rising in value.
2. **Be realistic.** If some advisor told you to expect a consistent 20% rate of return annually, or if you thought that is what investments paid, now is the time to get the facts. Consider 10% as a conservative long-term return in a "good" equity investment approach. That estimate is based on the performance of the S&P 500 index since 1926. Always remember that past performance does not guarantee future results.
3. **Get your investment risk aligned with what you are comfortable.** Do not invest for unrealistic returns, since that is an opportunity for disaster. Make investments that meet your individual risk tolerance and let the market take care of the returns.

In the past, bear markets have always come and gone. If your portfolio is not designed to handle them, then it is not a good portfolio. If your portfolio has caused you concern, it was probably ill designed in the beginning. You can have it realigned to better meet your individual investment profile by checking off on the enclosed coupon and using risk tolerances as the guide.

An Event Is A Catastrophe When You Are Not Prepared

The hardship that people endure when a catastrophe strikes is heartbreaking. The needless suffering and adjustment for not only the afflicted, but also family members can be severe. Here are a few catastrophes that can be avoided when you are prepared:

Destruction of Your Home

Earthquakes, fires and floods can obviously destroy your home. Earthquakes and floods *are not* covered in a standard homeowners policy. Fire is covered, but the question of adequate coverage is still an issue. I recall a gentleman who bought his house for \$150,000 in the late 70s in southern California. In 1991, his house along with 2500 other homes burnt to the ground in the nation's worst firestorm. Although his house was worth \$450,000, he got a check for \$150,000 because he never modified the homeowner's coverage after the date of purchase. He was retired and will never recover from this loss. Please get your homeowners insurance reviewed by a professional.

Legal Liability

Yes, you are at risk if someone falls on a banana peel on your property. Yes, your homeowners insurance will pay *up to* the limits of the policy. If the claimant wins more in court than the policy pays, you will have to pay beyond the policy limit.

Or perhaps your son is a real estate contractor and you invested with him and your funds are commingled in joint accounts. If he gets successfully sued, the commingled assets, part of which are your assets, can get attached and a forced sale could ensue. There are common and simple ways to protect your assets using family partnerships and irrevocable trusts.

Illness

Over 4 million seniors are receiving long-term health care at home, in an assisted living center, or in the nursing home. Most of them do not have insurance and Medicare will not pay for long term care in most cases. A June 21, 2001 CNA study found that the national average for the cost of long-term health care is \$4,140 per month. Unless you have a pile of money to pay for a long-term illness, you should get long term care insurance. Your medical insurance *will not* cover the needs of a long term care and you need a separate long term care policy to cover these expenses.

No one can avoid acts of nature or unfortunate events, but you can keep them from being catastrophes. Contact us about removing these unnecessary risks, and protecting your assets that could steal a comfortable retirement.

UPCOMING SEMINARS

“Unlocking The Secrets To A Successful Retirement”

Mrs. Miller's Chicken and Steak House
4723 Central Avenue, Hot Springs, Arkansas

Tuesday, June 11, 2002 6:00PM
Thursday, June 13, 2002 6:00PM

Tuesday, July 9, 2002 6:00PM
Thursday, July 11, 2002 6:00PM

Tuesday, July 30, 2002 6:00PM
Thursday, August 1, 2002 6:00PM

Dinner will be served, but seating is limited.
Call 316-3100 or 800-468-3007 to make your reservation.

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FOR INFORMATION
ON THE FOLLOWING TOPICS
RETURN THIS TO:
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Please send information on these topics mentioned in your newsletter:

- Please contact me for a *free* Comprehensive Financial Plan.
- Please contact me for a *free* review of my Estate Plan.
- Please contact me about the value investing program.
- Please contact me about establishing a portfolio of dividend paying stocks.
- Please contact me to conduct a *free* risk tolerance review of my investments.
- Please contact me about removing the unnecessary risks outlined in your article.
- I would like to know more about these topics not covered in your newsletter:

- I think these people would like to receive your newsletter and invitation to your next seminar.
(Please provide their name and address with zip code):

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