
# Special Report:

# Top Ten Investment Ideas for 2009

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# Top Ten Investment Ideas for 2009

## 1. Corporate Bonds.

The quality spread, the difference between yields on Treasury securities and non-Treasury securities, is at a level comparable to the Great Depression and is discounting very high default rates. While Regatta's research team believes we will see a spike in the default rate, we don't believe they will reach the levels currently being priced in by the market. Many models are suggesting that, once the economy stabilizes, the gains in the corporate bond market could potentially be in the double digits. We currently advocate investing in highly rated corporate bonds as being the safest play. If the economy begins to stabilize, more value could be found in lower rated corporates with stronger balance sheets. Once the economic indicators begin to suggest the economy has bottomed and recovery is beginning, value could be found in the lower rated corporate and junk bonds.

## 2. Gold.

The bullish case for gold is solid: In a deflationary environment, all central banks must print money aggressively. When governments around the world "run the printing presses", run up large debts, and devalue their currencies, gold is often one of the best plays. This is exactly what is occurring. Another promising sign is gold has decoupled from other commodities. During the commodity bull and in the beginning of last year's pullback, gold prices moved in tandem with other resource prices. Towards the end of last year and in the beginning on this year, gold have been able to rally despite the strength in the dollar and slowing jewelry demand. Gold is also considered a "safe-haven" and prices should continue to hold up well even if the weakness in the equity markets continues.

## 3. China.

There are not many structural imbalances and their share prices have been beaten down to attractive levels. The longer-term outlook for emerging countries remains strong and with improved growth potential and better fiscal conditions, they might see a turnaround before some of the developed economies. Regatta's research team expects the first signs of a global economic recovery to come out of China. China has been able to implement its $586 billion stimulus plan quickly and the authorities have much more influence on bank lending than in the US. We are already seen stronger data out of China than most other economies. In December Chinese property transactions surged on a monthly basis.

This positive real estate activity in response to interest rate cuts signals that the markets have responded to the policy actions.

# 4. Technology.

Most technology companies have not been affected by the housing and financial crises and maintain healthy balance sheets. Demand for technology goods also has potential to hold up better as companies look to boost productivity through technology, rather than increasing labor costs. Following the burst of the tech bubble, businesses tightened their tech budgets to a point where investment is now drastically below its long-term trend. Due to this underinvestment, earnings should hold up much better than in previous slowdowns that witnessed overinvestment.

# 5. Industrials.

Much like technology, the majority of industrials do not have the exposure to housing and the credit crunch. Therefore most continue to have healthy balance sheets. The financial arm of GE has caused this well known industrial to fall remarkably. This has led to the "baby being thrown out with the bathwater" effect, seeing other industrials, without this exposure nosedive. With the increase in governmental infrastructure spending across the globe, we believe the global demand should not fall as much as other industries. If we are correct about continued growth in China, this should support industrial demand as well. The Chinese authorities are determined to minimize the slowdown and have committed billions into expanding their infrastructure. This infrastructure expansion should also help maintain global industrial demand.

# 6. Commodities.

Commodities sold off at an extremely rapid pace in 2008. We believe they are now at attractive levels. As we have mentioned with the case for industrials, commodities should benefit from some of the same factors. Emerging market development and increases in infrastructure spending my governments around the world should continue to hold commodity demand. Once economic indicators show improvement, commodities could take off again. We also believe the US dollar will weaken this year, and a weak dollar tends to translate to an increase in many commodities, particularly crude oil which is priced in US dollars. Therefore when the dollar falls, foreign importer's bottom line is being affected, causing an increase in price to compensate them for the currency loss.

# 7. Materials.

Our bullish view on materials stem from the same factors supporting commodities and industrials. Increased infrastructure spending should also underpin demand. Following a collapse in prices in 2008, the material sector seems poised for a rebound. While it might be later in the year before we see a sustainable rebound, we believe current price levels have been discounted to a point where the downside risk has been cushioned.

# 8. Reverse Exchange Convertibles.

Outside of periodic sharp rallies, we feel probabilities only favor mild to moderate market conditions for equities. Reverse Exchange Convertibles could potentially perform well in this type of environment. They can provide for a high coupon, while allowing for contingent downside protection, generally between 20-50%. Investors should be careful in selection though, and favor the companies in defensive sectors with healthy balance sheets. When buying a Reverse Exchange Convertible, an investor should always look at it as if they will be buying the stock of the underlying company. Make sure you are "ok" with owning the stock and are not just buying the security for the yield or downside protection. Due to their complexities and their special risk and return profile, we strongly recommend that Reverse Exchange Convertibles are managed by a knowledgeable and skilled portfolio management team, such as Regatta Research & Money Management, L.L.C.

# 9. Short US Treasuries.

US Treasuries have seen a vast run up in pricing and, as a result, yields are at historic lows. We feel this move has been driven by fear and is divorced from fundamental reality. Regatta's research team feels that Treasuries are in the midst of a bubble. Much like the oil bubble we saw in 2008, and the Tech bubble in 2000, at some point, the Treasury bubble will burst. The first leg underpinning the bubble in Treasuries will fall once investors begin to see more stability in the credit market and begin to search for yield. The second leg to fall will probably occur when inflation will also begins to tick up. With governmental authorities increasing the money supply at historic levels, this may occur sooner rather than later. Finally, the inflation concerns will spark investors to ultimately move towards higher rated corporate debt and areas outside of Treasuries, causing prices to fall.

# 10. Energy.

Regatta's research team believes that the fundamental data does not support energy prices at its current low levels. For many of the reasons we have stated before, namely China's growth and infrastructure building, and the decline of the US dollar, we believe energy could see a substantial rebound in 2009. We feel the downside in energy is limited, and a new bull market could emerge. As much as the world talked about consuming less energy and moving towards alternative sources, the facts show we will continue to consume large amounts of energy. The growth and industrialization of the emerging market countries continue to add new energy consumers. Even if the current consumers slow down their consumption, the new users continue to add to overall demand. It will also be many years if not many decades before alternative energy sources can make a dent in our energy consumption. This was a big topic in 2008 as oil prices surged. Now that oil prices have fallen, alternative sources are not as attractive. This has caused many alternative energy projects to be delayed or cancelled altogether. Therefore our current uses of energy will continue to stay in high demand for the foreseeable future.

***If you need help in implementing these investment ideas and would like to see how they might fit in with your portfolio and financial plan, contact us at info@regattaresearch.com or at one of our investment offices near you.***

investments involve market risk, including fluctuating returns and possible loss of principal so that an investor's shares, when redeemed, may be worth more or less than their original cost. Small cap stocks tend to experience greater volatility than large company stocks. Bonds offer a fixed interest rate and return of principal if held to maturity. International investments involve special risks, including economic and political uncertainty, as well as currency fluctuations. Sector investments tend to involve special risk due to their concentrated nature. Structured Product risks may include loss of principal and the possibility that at expiration the investor will own the referenced asset at a depressed price. Other factors that may affect the investment value of the structured product include: interest rates, volatility of the underlying asset, liquidity and time remaining until maturity. While structured products pay interest similar to debt securities, they often exhibit very different profit and loss potential. The profit and loss potential of many structured products is more akin to an option contract, particularly those where principal invested is at risk from market movements in the underlying security. Structured investments are generally backed by the issuing firm.

Typically, the issuer of the structured investment maintains a secondary market; however, they are not obligated to do so. The indices mentioned in the report are unmanaged. Investors can not invest directly in an index. Past performance does not guarantee future results. This is not an offer to buy or sell securities. The information contained in this report has been taken from trade, statistical services, and other services, which we deem reliable. We do not represent that it is accurate or complete, nor should it be relied on as such. Any opinions herein reflect our judgment at this date and are subject to change. The company, its principals, or affiliates, may from time to time hold shares of issues mentioned. Always ask for and examine an advisory agreement (SEC Form ADV), along with a prospectus before investing. Additional information is available upon request.