

The Equity Market: Liar's Poker?

By Robert Biondi - Vice ~~President~~

The usual winner of a *Liar's Poker* game is the player who is willing to assume risks by bidding higher and higher, often beyond the real value of the hand. The ability to confuse the opponent as to strength of hand, or lack thereof, is the key to success. Bidding up and up until someone is "stuck" with a high bid is one of the goals of the game.

More often than not, it isn't the strength of the hand that determines the winner, but rather the winner's ability to craftily lie about one's hand ... leading the opponent to believe you have more than actually exists.

The more I read and listen to financial news reports, the more I talk to clients, investment advisors and the competition about the current equity market, the more I am convinced many "investors" today are playing in a game of *"Liar's Poker"*. Paying up for the hand with the hope there will be yet a higher bid.

Optimistic expectations for more gains are based on "feel" rather than sound financial reasoning. Investors, professionals included, give me pause to ask just how many truly realize that much of their capital is being used to play in a risky game.

We hear comments like "stay with it for a while longer": "where am I going to put my money anyway?", or "I'm playing with *their* money"...and so on.

Therefore, if you are beginning to "feel" uncertain about some of your equity investments because you believe you may be playing a bit of *"Liar's Poker"* yourself, we make the following suggestions:

1. Review your asset allocation. How much exposure are you comfortable with playing the *"Liar's Poker"* game? Question the amount you have committed in equities whose price fluctuate wildly.
2. Keep and buy *quality*; minimize or sell the rest.
3. Question the amount you have committed to stocks that are selling at huge earnings multiples.
4. Reinvest the *"Liar's Poker"* proceeds in additional high quality Tax Free Bonds.

Although the yield curve is flat, longer maturity tax free municipal bonds still offer excellent value. Ten year AAA yield tax free bonds yield about **4.30%** (7.16% Taxable Equivalent @39.4%). Compare this to ten year US Government bonds at 5.28% or **3.19%** a after tax.

Because tax free bonds are a good value at the present time, we suggest your bond portfolio be enhanced with some of those same funds you are presently using to play *"Liar's Poker"*. Ask your *Bernardi Investment Specialist* to review your ladder needs. We would be pleased to help you improve your bond portfolio income.

Robert Biondi, Vice President