

*Hello!*

NEBC

***PETER DAG***

**STRATEGIC  
MONEY MANAGEMENT**

George Dagnino, PhD

*The Peter Dag Portfolio  
Strategy and Management*

***[www.peterdag.com](http://www.peterdag.com)***

# OUTLINE

- **PETER DAG PERFORMANCE**
- **INVESTMENT PROCESS**
  - ✓ **BUSINESS ENVIRONMENT**
  - ✓ **IMPACT ON ASSET CLASSES**
  - ✓ **SELECTION OF ASSET CLASSES**
  - ✓ **STOCK/ASSET SELECTION**
  - ✓ **PERFORMANCE MANAGEMENT**
- **INVESTMENT FALLACIES**

# *Peter Dag's* **PERFORMANCE**

	<u><b>S&amp;P 500</b></u>
2002 +7.4%	-23.4%
2003 +30.4%	+26.4%
2004 +16.9%	+9.0%
Total <u>+63.7%</u>	<u>+5.6%</u>

(Source: The Hulbert Organization)

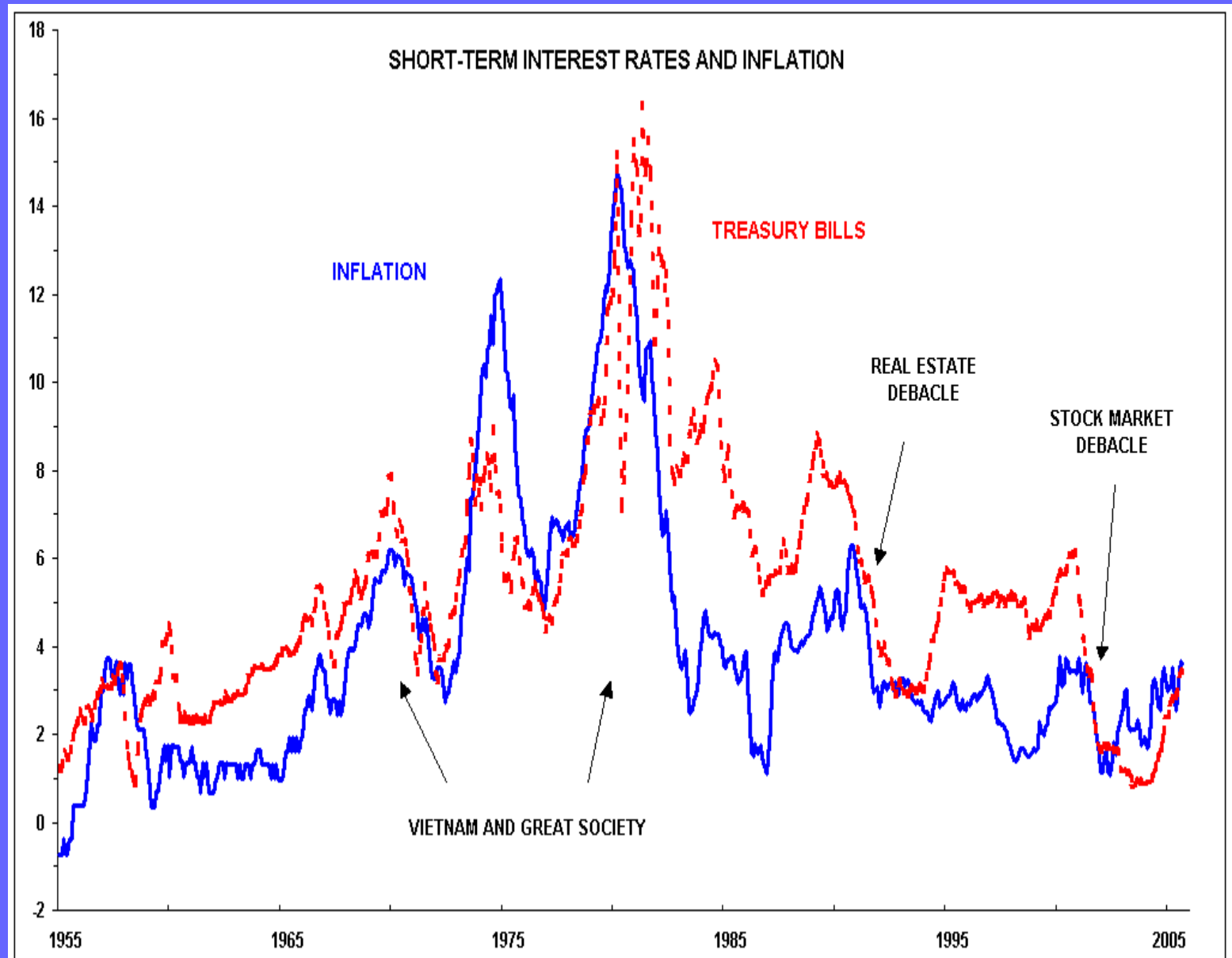
Up 8.6% (S&P500:-0.1%) y-t-d (9/21/05)

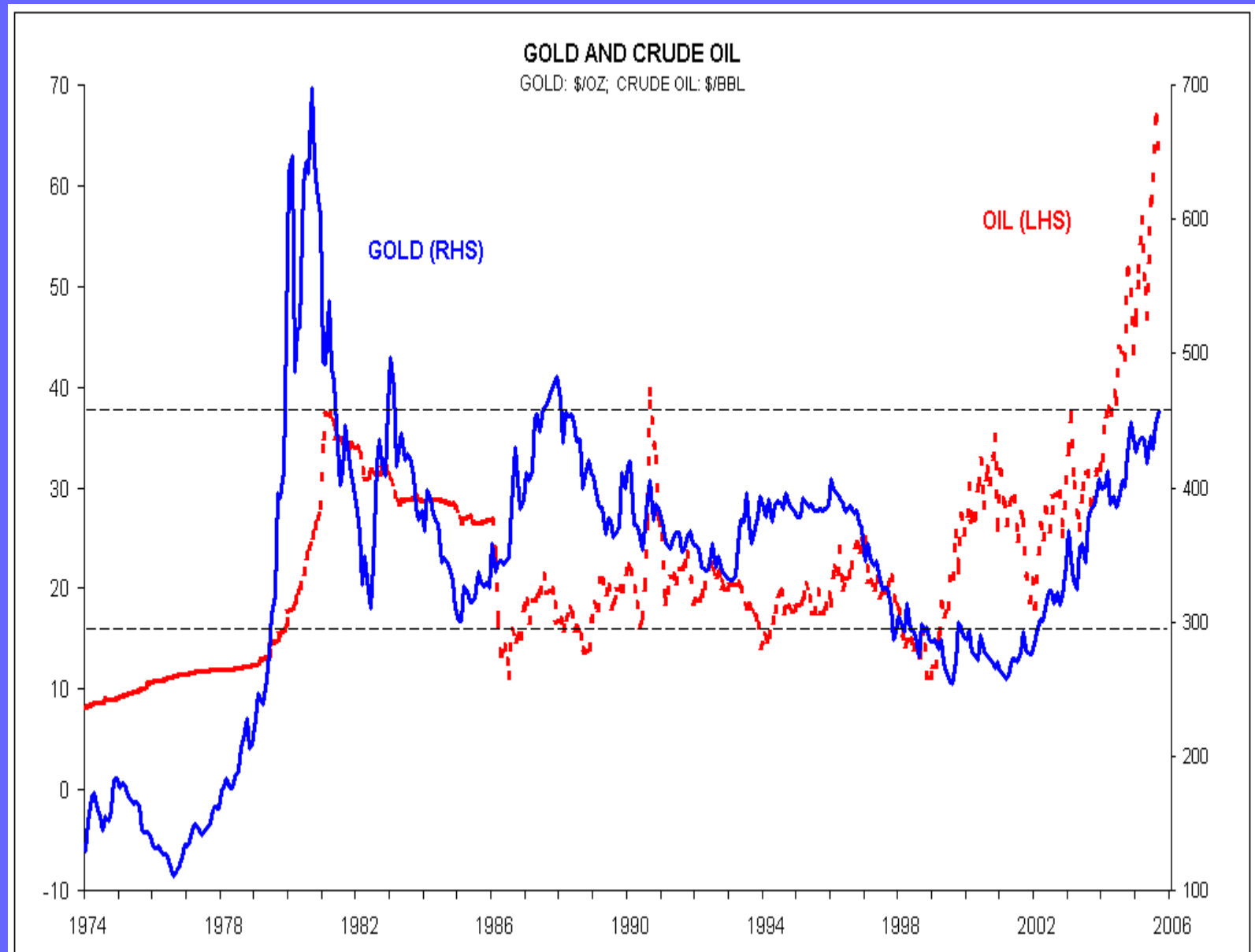
# LONG-TERM ISSUES

- LEVEL OF REAL SHORT-TERM INTEREST RATES  
(The fever chart of any economy)
- CREDIT RISK

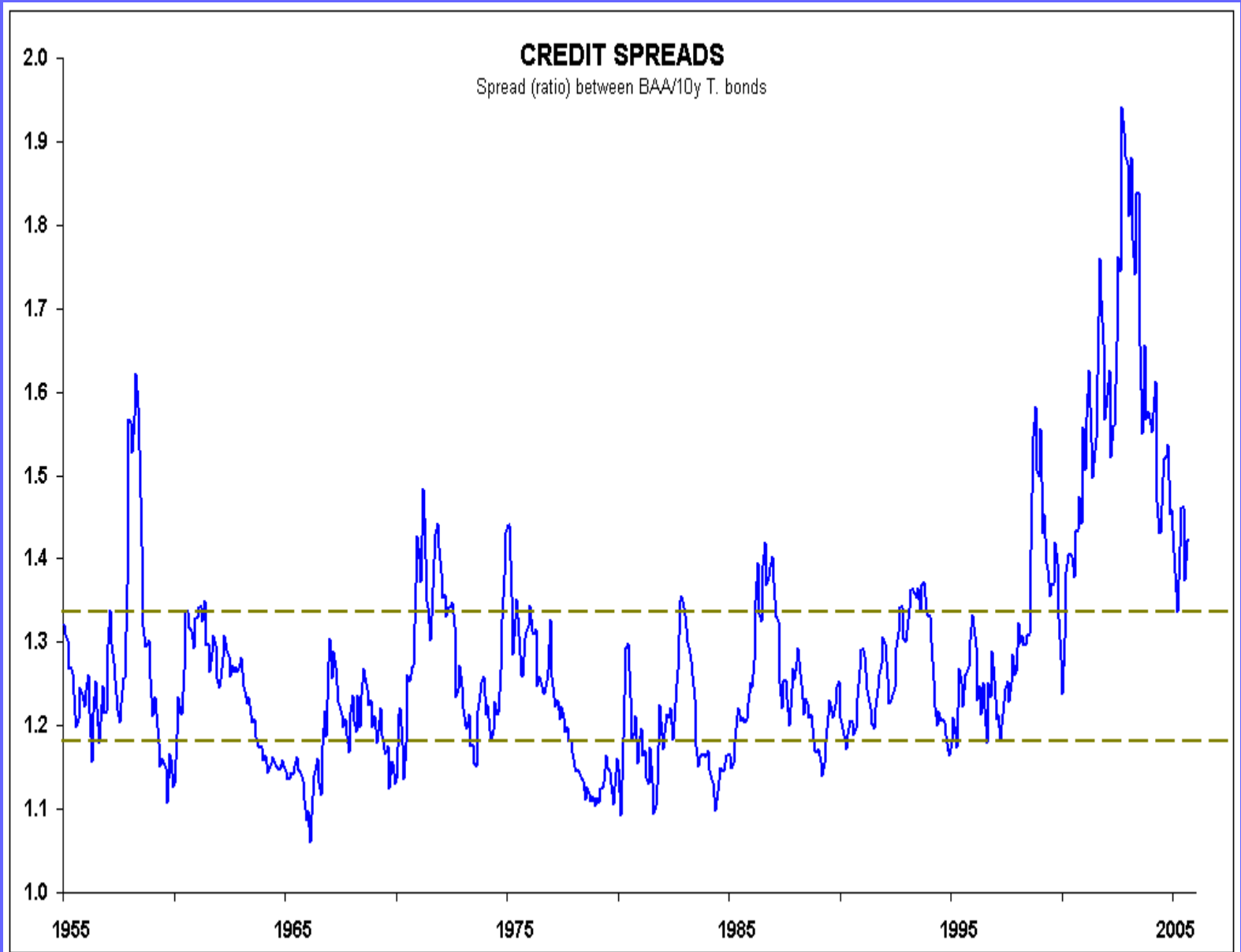
# **VERY IMPORTANT TO UNDERSTAND CURRENT TIMES!**

THE VOLATILITY OF  
HARD ASSET PRICES  
IS RELATED TO THE LEVEL OF  
REAL SHORT-TERM INTEREST RATES





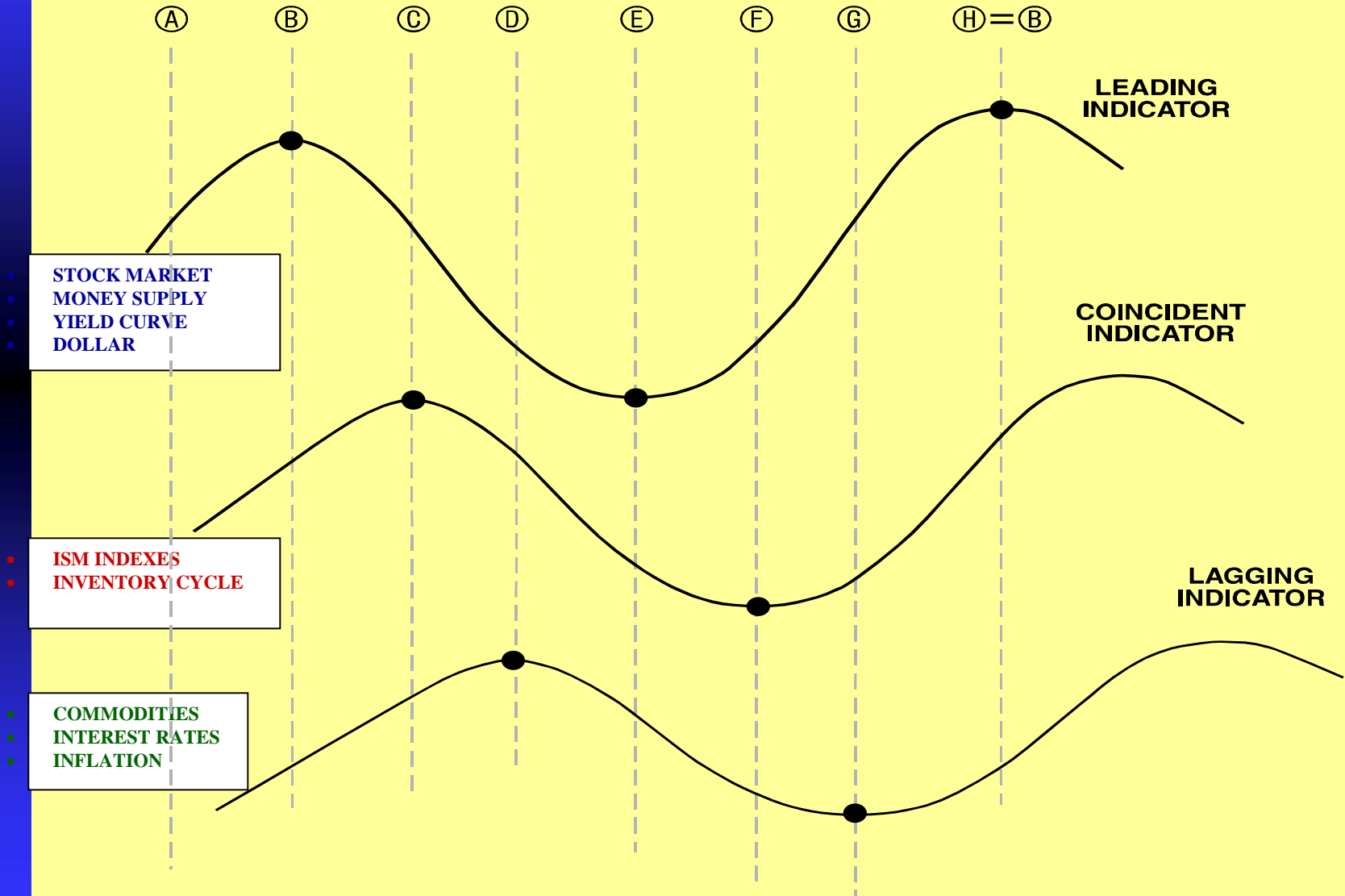




# INVESTMENT PROCESS

# **BUSINESS CYCLES AND ASSET CLASSES**

# BUSINESS AND FINANCIAL CYCLE CONFIGURATIONS

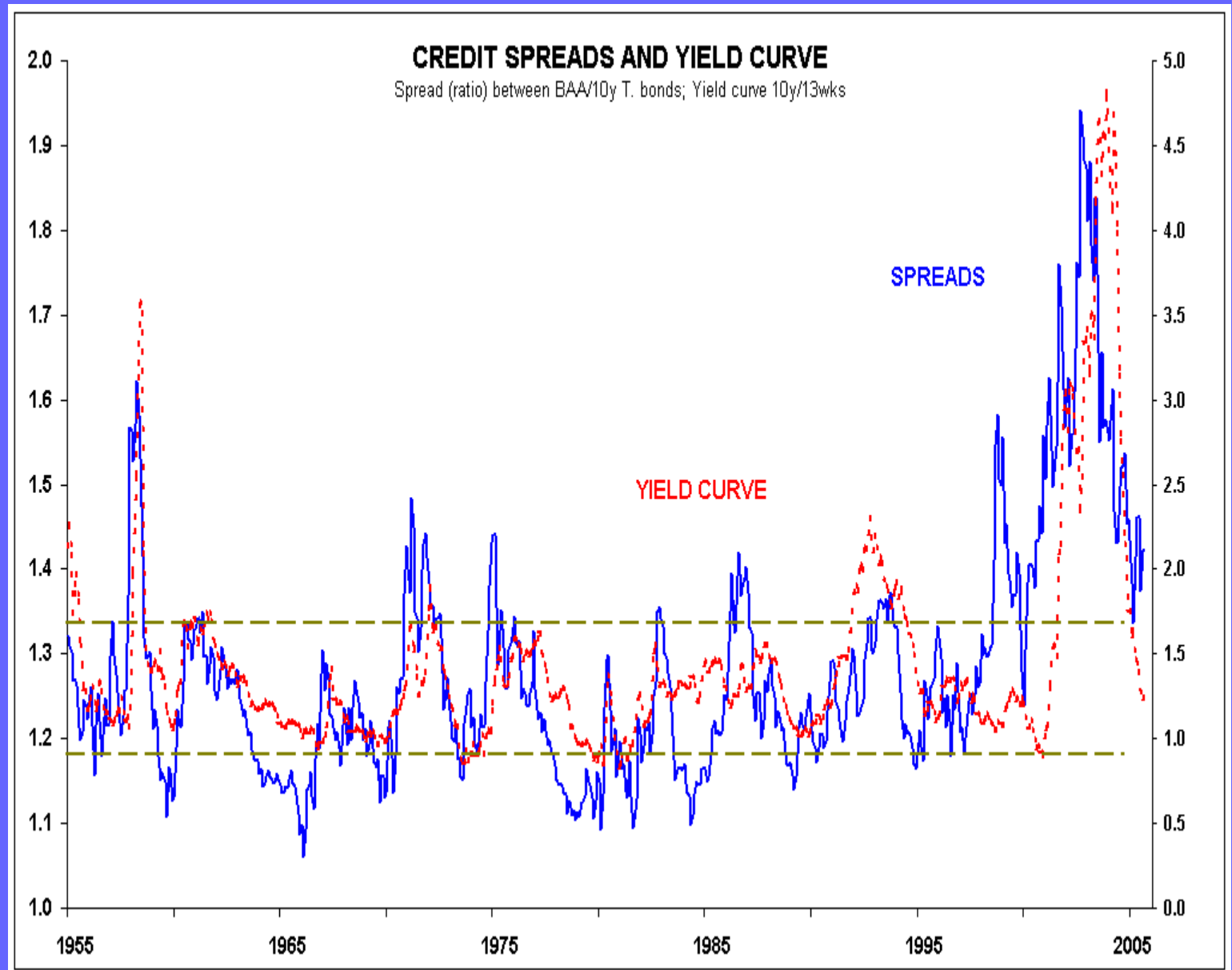


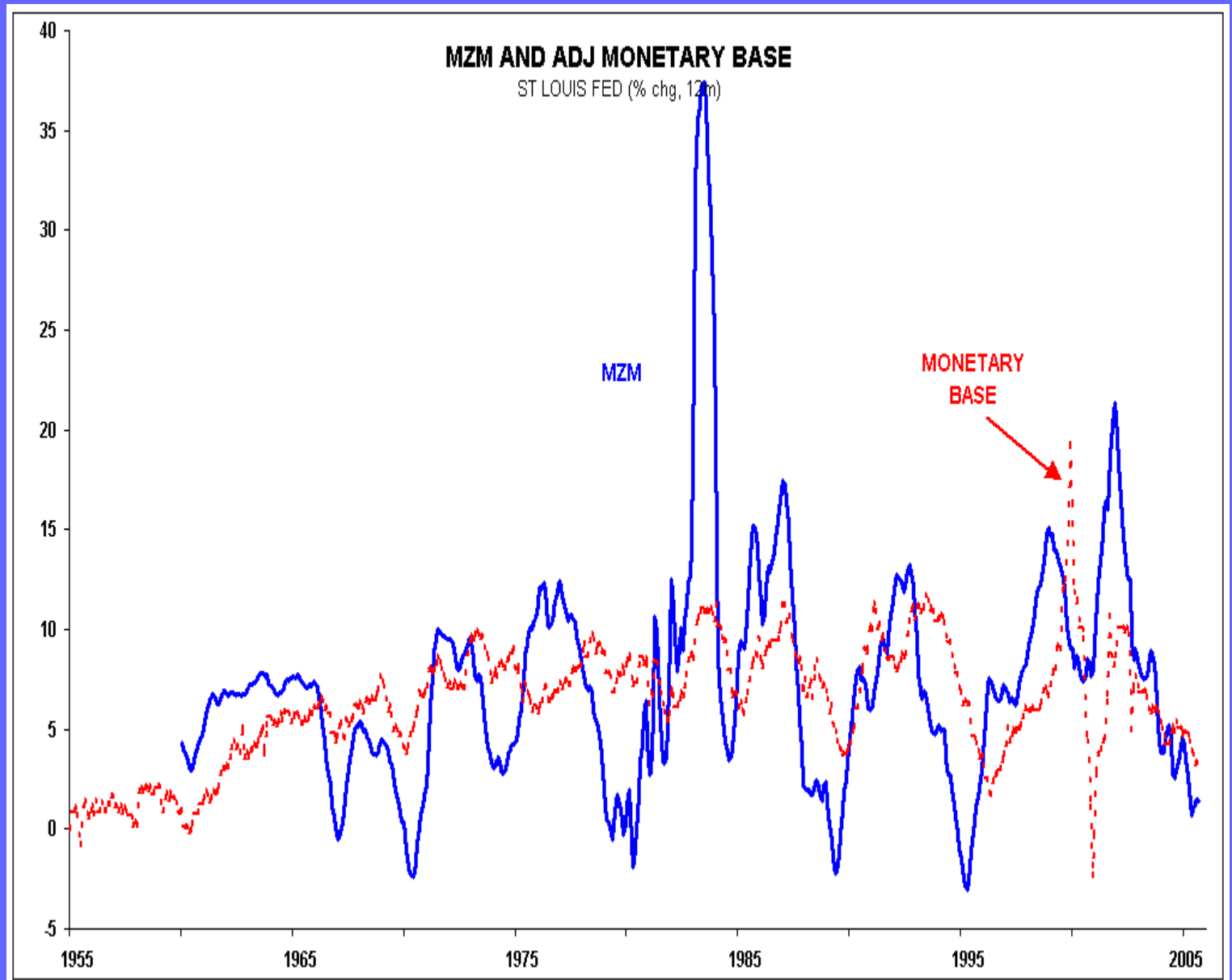
# LEADING INDICATORS

- YIELD CURVE
- DOLLAR
- STOCK MARKET
- MONEY SUPPLY
- YIELD SPREADS

# **LEADING INDICATORS**

**THEY LEAD  
TURNING POINTS OF THE  
BUSINESS CYCLE**







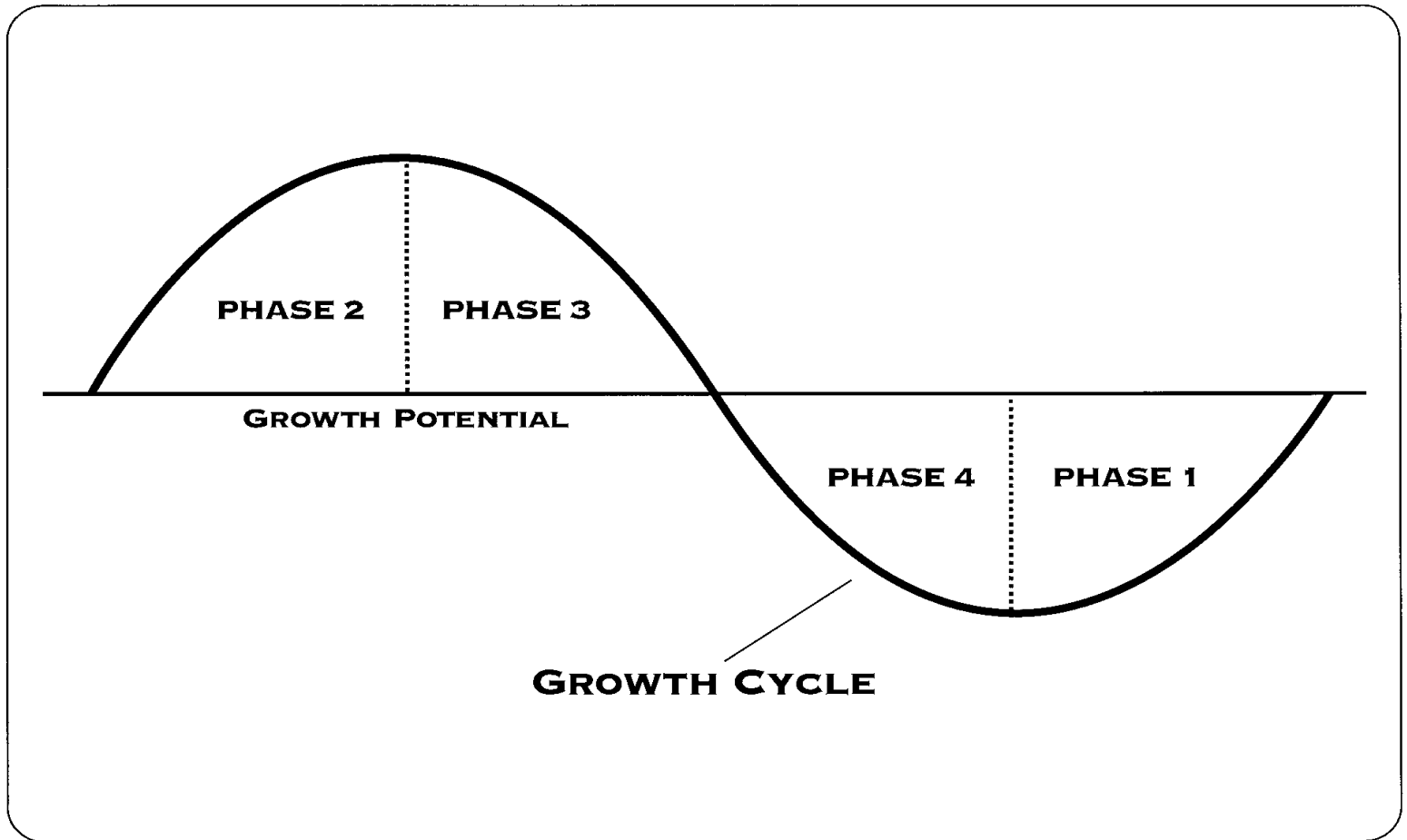
# COINCIDENT INDICATORS

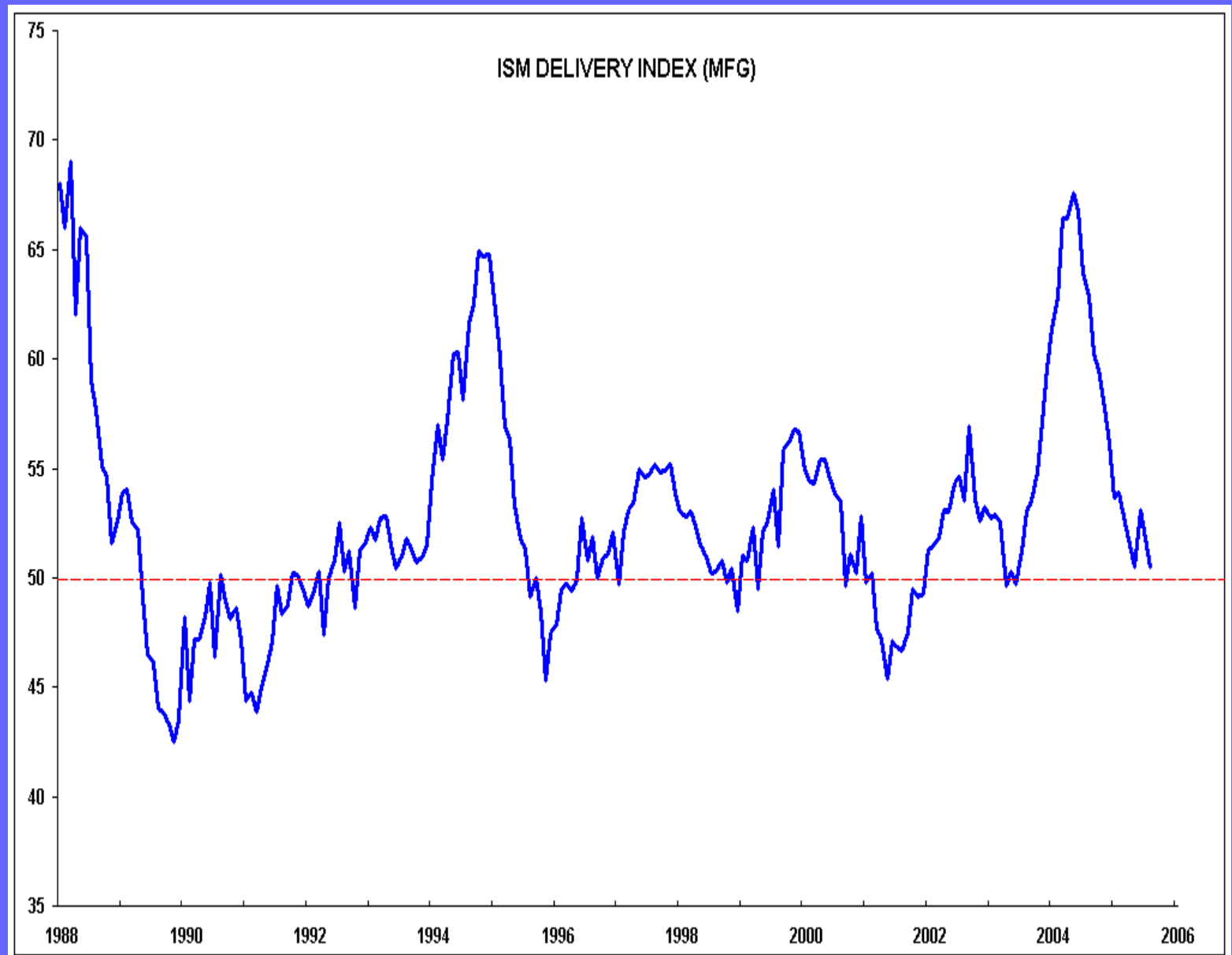
- ISM INDEXES
- INVENTORY CYCLE
- CREDIT MANAGERS
- GLOBAL PURCHASING MANAGERS

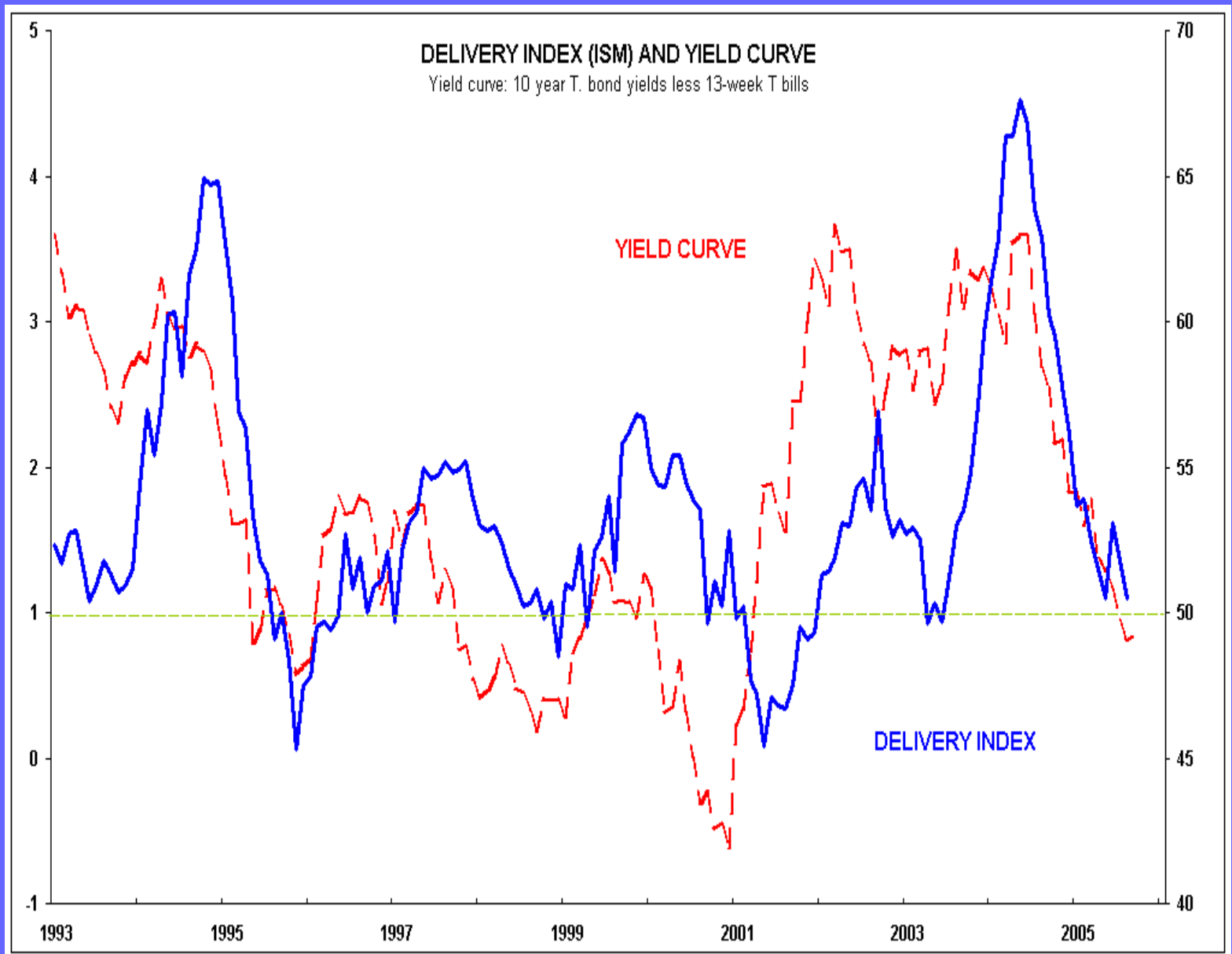
# COINCIDENT INDICATORS

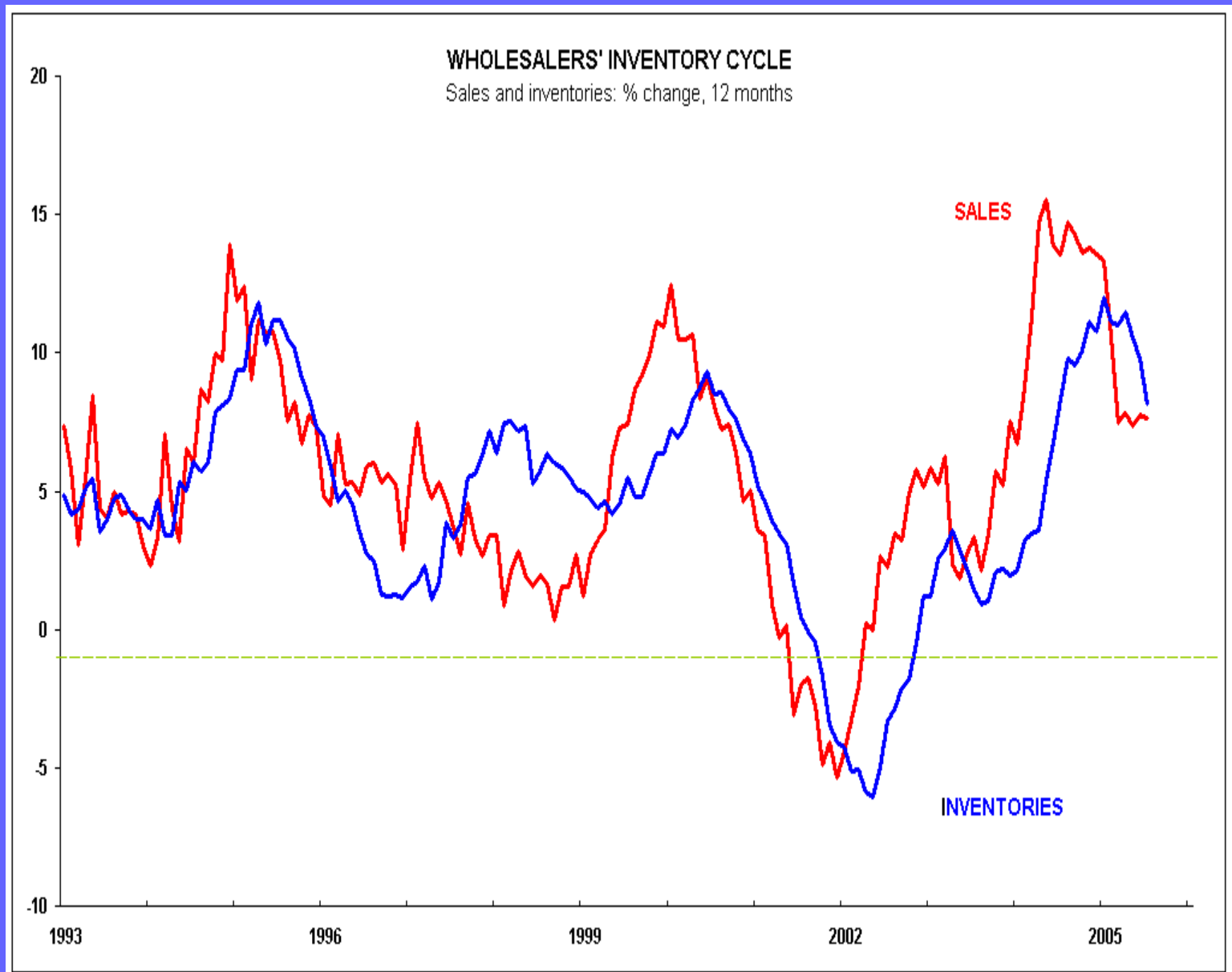
- THEY FOLLOW THE LEADING
- THEY LEAD THE LAGGING

# BUSINESS CYCLE









# LAGGING INDICATORS

- ANY COMMODITY OR  
HARD ASSET
- SHORT-TERM INTEREST RATES
- HIGH/LOW GRADE BOND YIELDS
- INFLATION
- EARNINGS/SHARE

# LAGGING INDICATORS

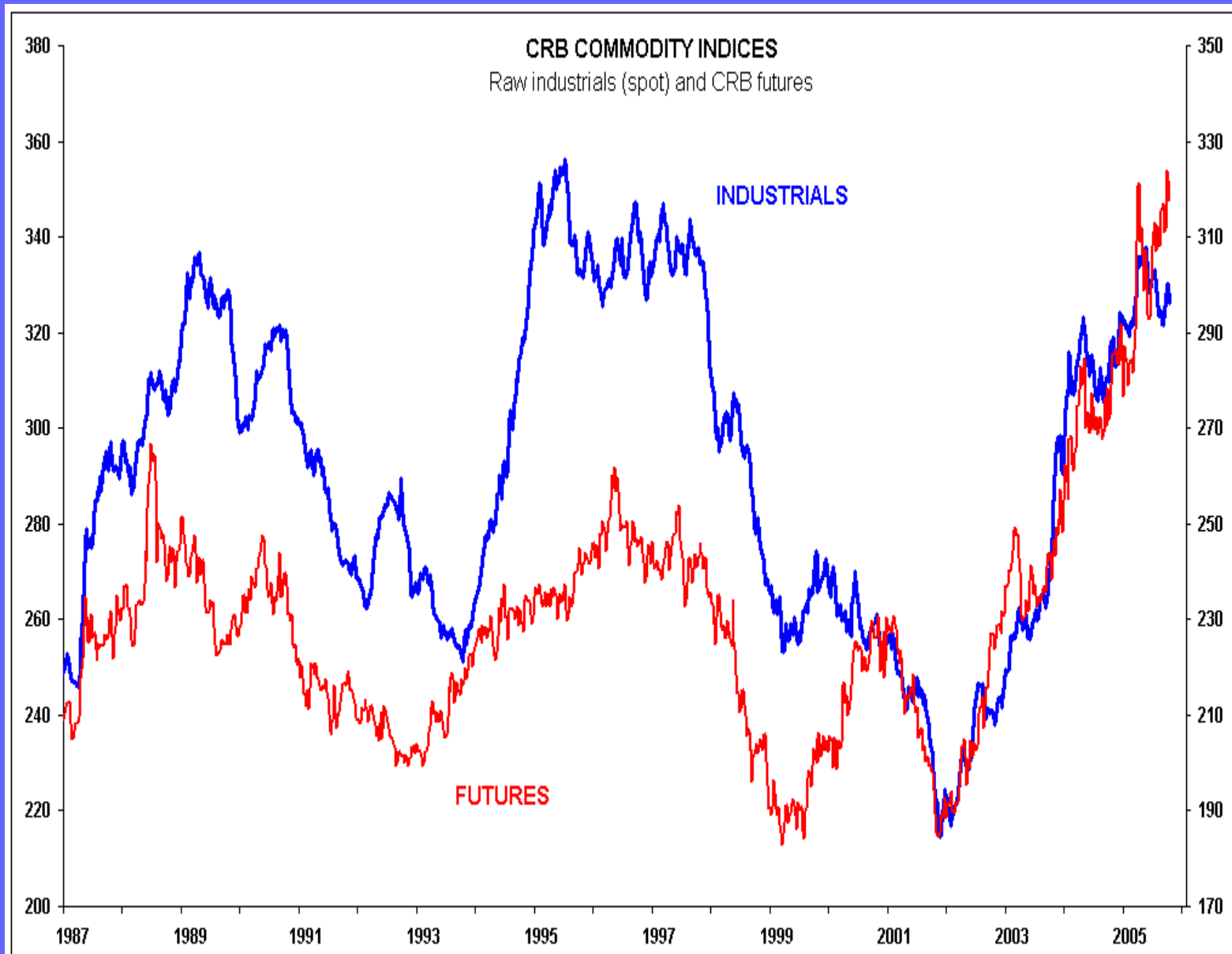
- THEY LAG THE COINCIDENT INDICATORS
- THEY LEAD THE LEADING INDICATORS

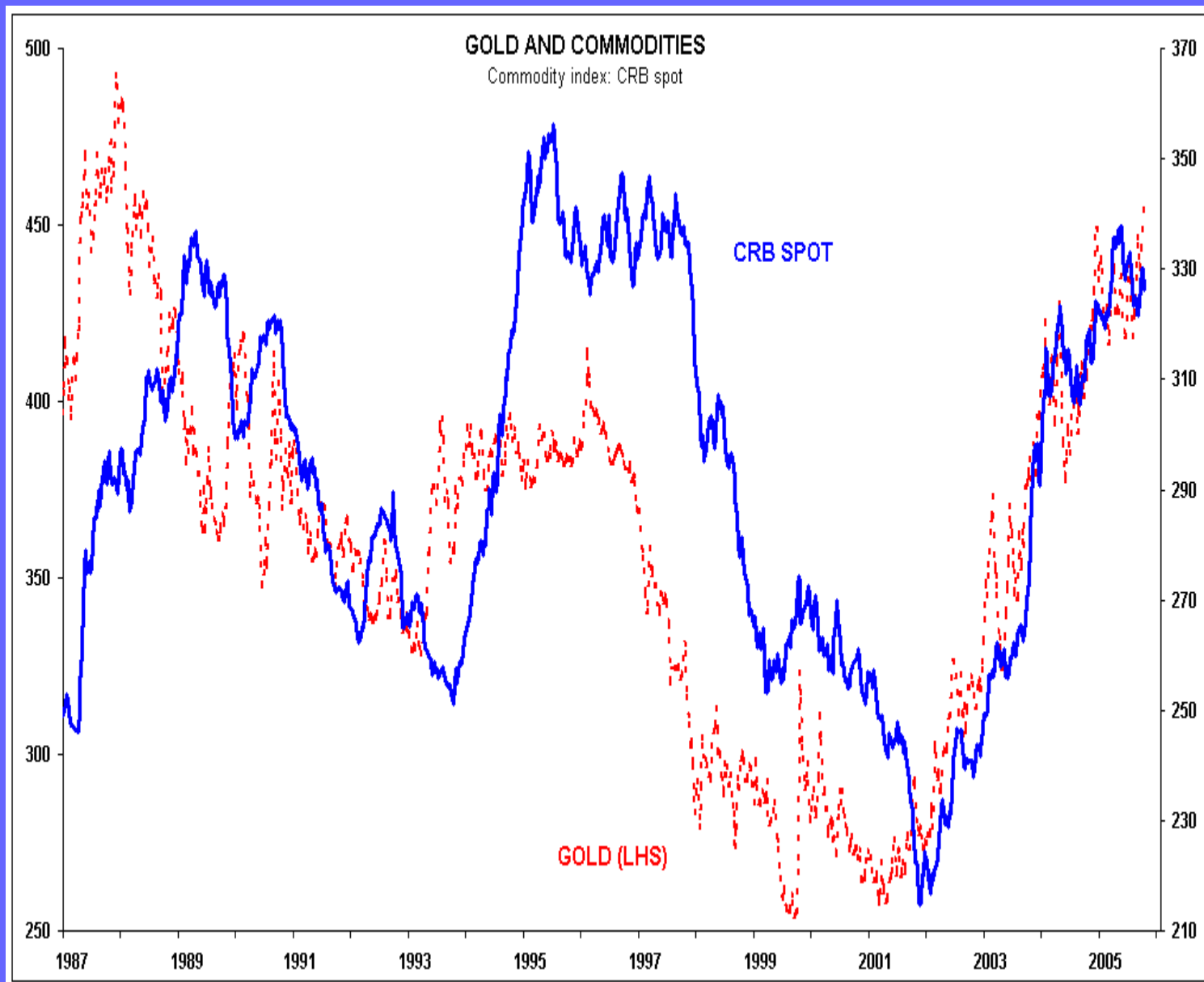


# PERSPECTIVE

- THE LEADING TELL YOU ABOUT THE TREND OF THE COINCIDENT
- THE COINCIDENT TELL YOU WHAT IS THE OUTLOOK OF THE LAGGING
- THE LAGGING TELL YOU HOW TO MAKE MONEY

**MANY STOCK SECTORS  
AND ASSET CLASSES  
FOLLOW CLOSELY THE  
LAGGING INDICATORS**





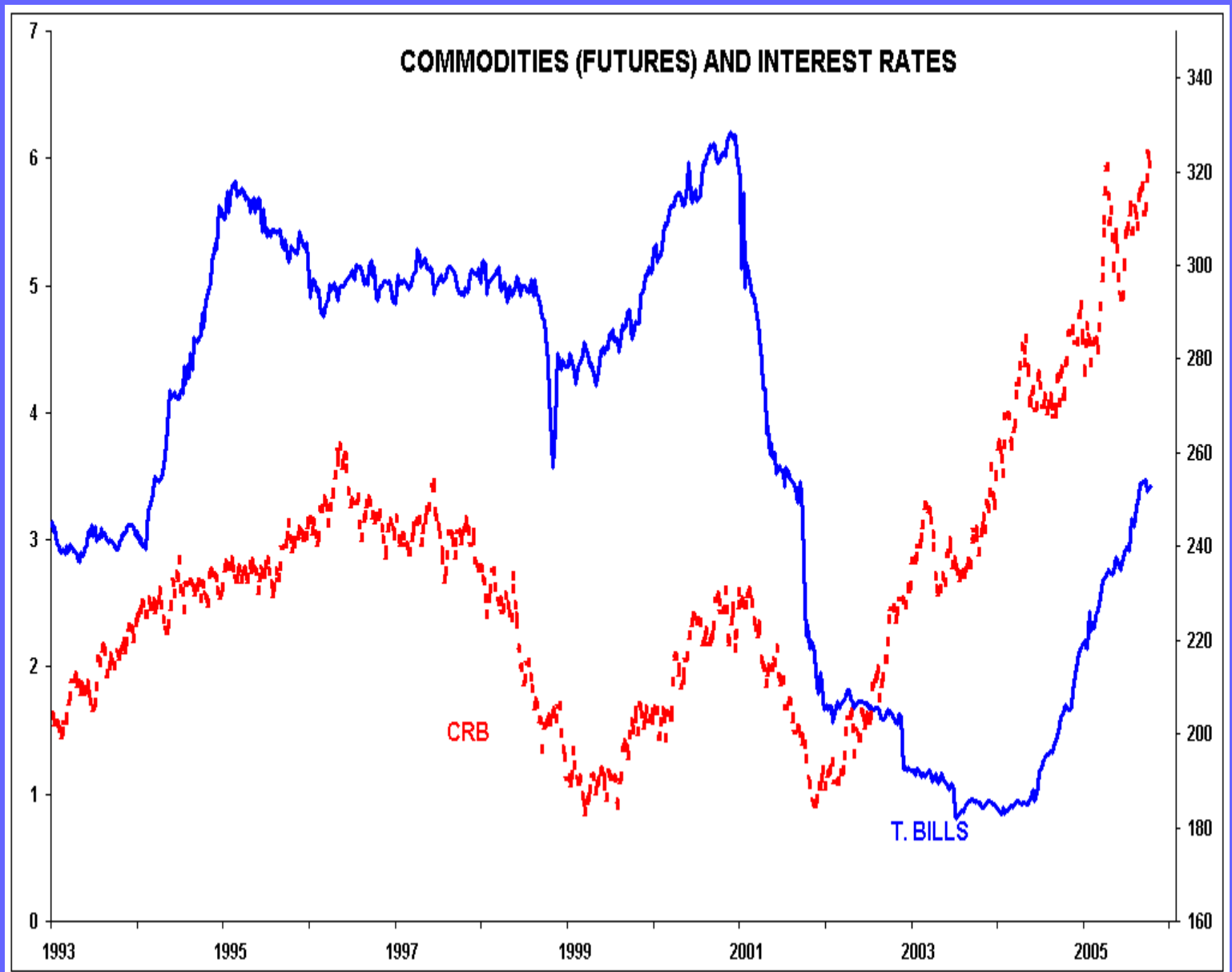
# **SINCE THE FOLLOWING ITEMS HAVE THE SAME CYCLICAL TURNING POINTS ....**

- **SHORT-TERM-INTEREST RATES**
- **ALL COMMODITIES**
- **INVENTORY CHANGES**
- **EARNINGS PER SHARE**

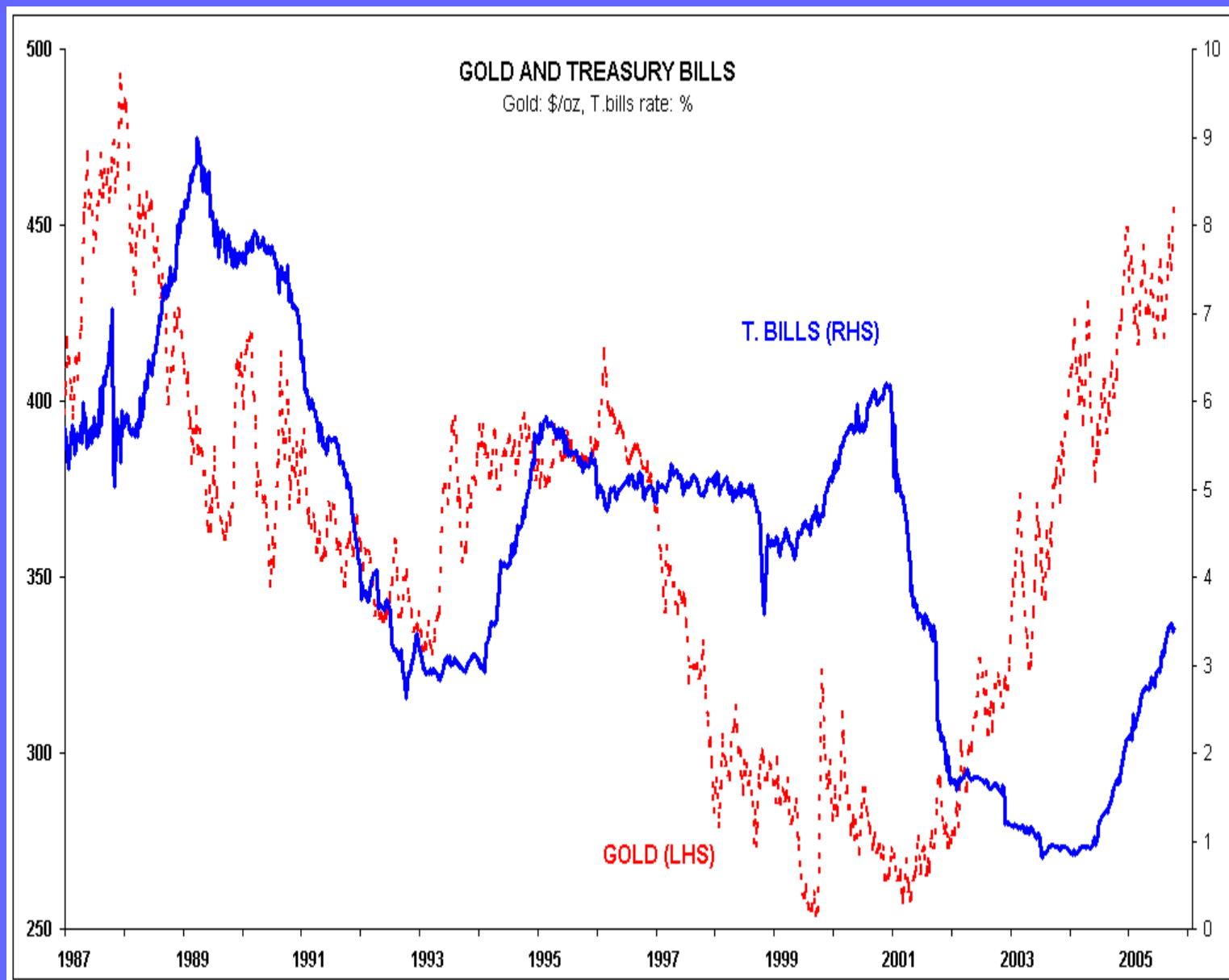
# **... DOES IT FOLLOW THAT THE FED CONTROLS ...**

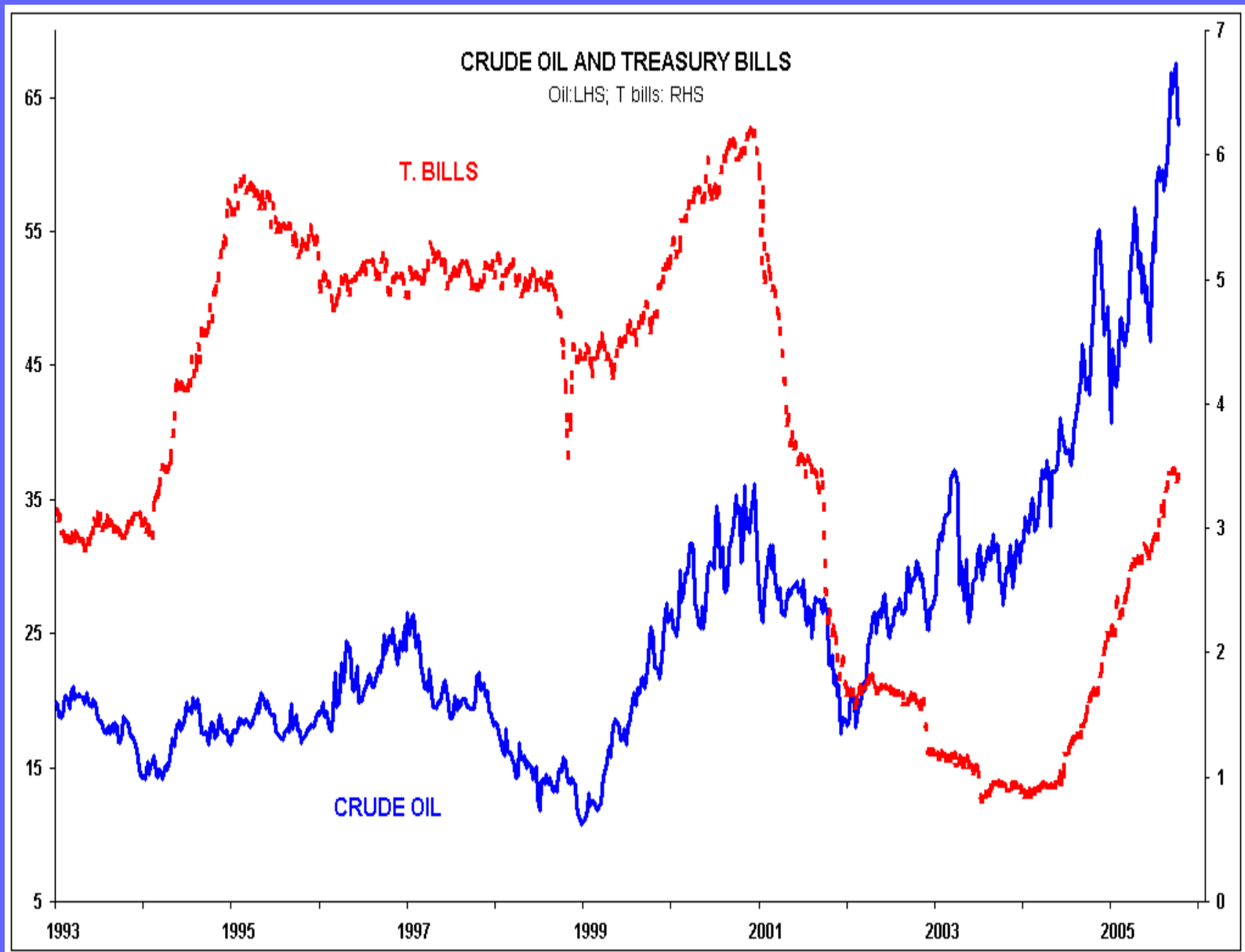
- **GOLD,**
- **CRUDE OIL,**
- **COPPER,**
- **CHANGE IN INVENTORIES,**
- **EARNINGS PER SHARE?**

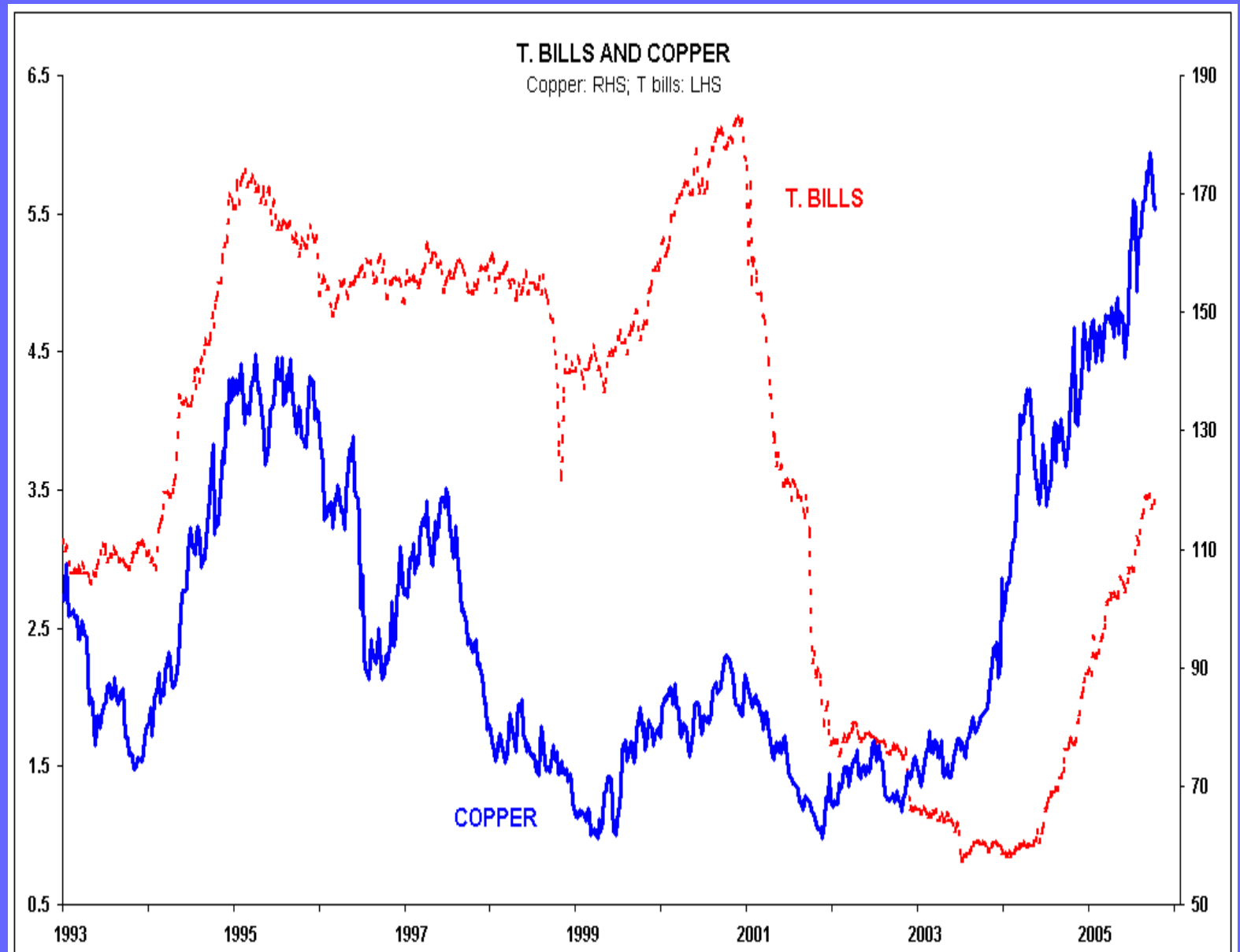
**SEE NEXT CHARTS  
TO FIND OUT THE  
ANSWER**





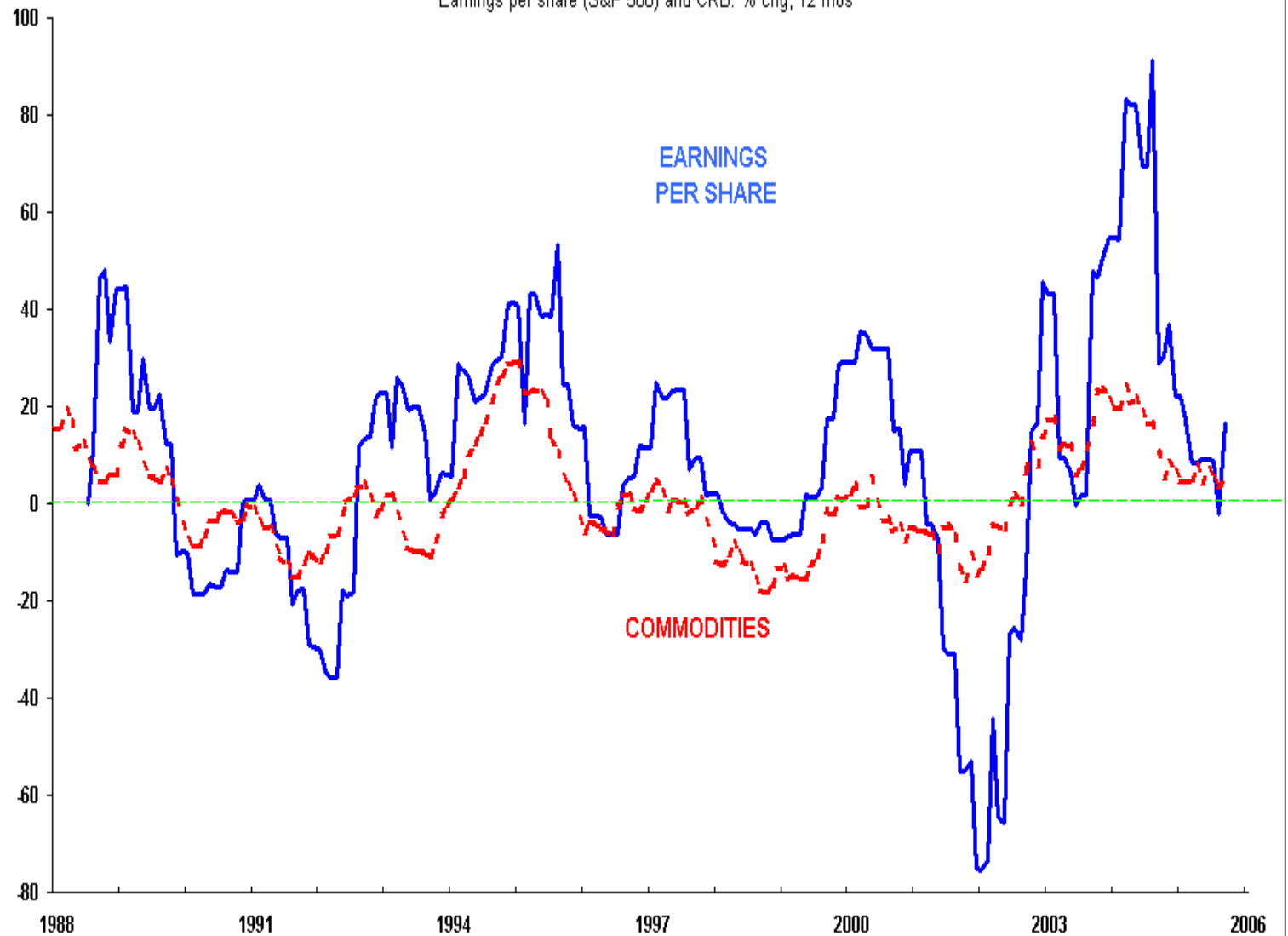


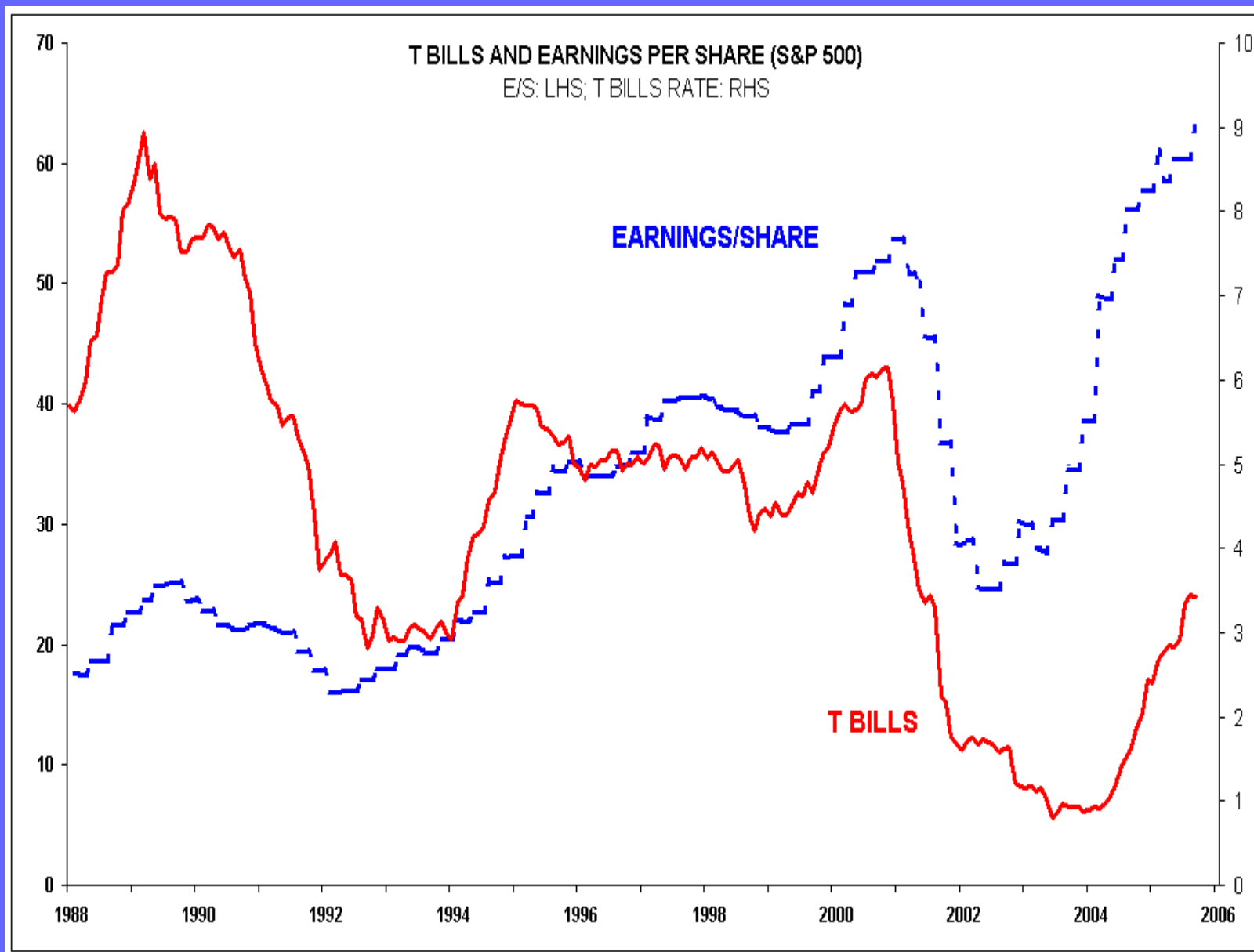


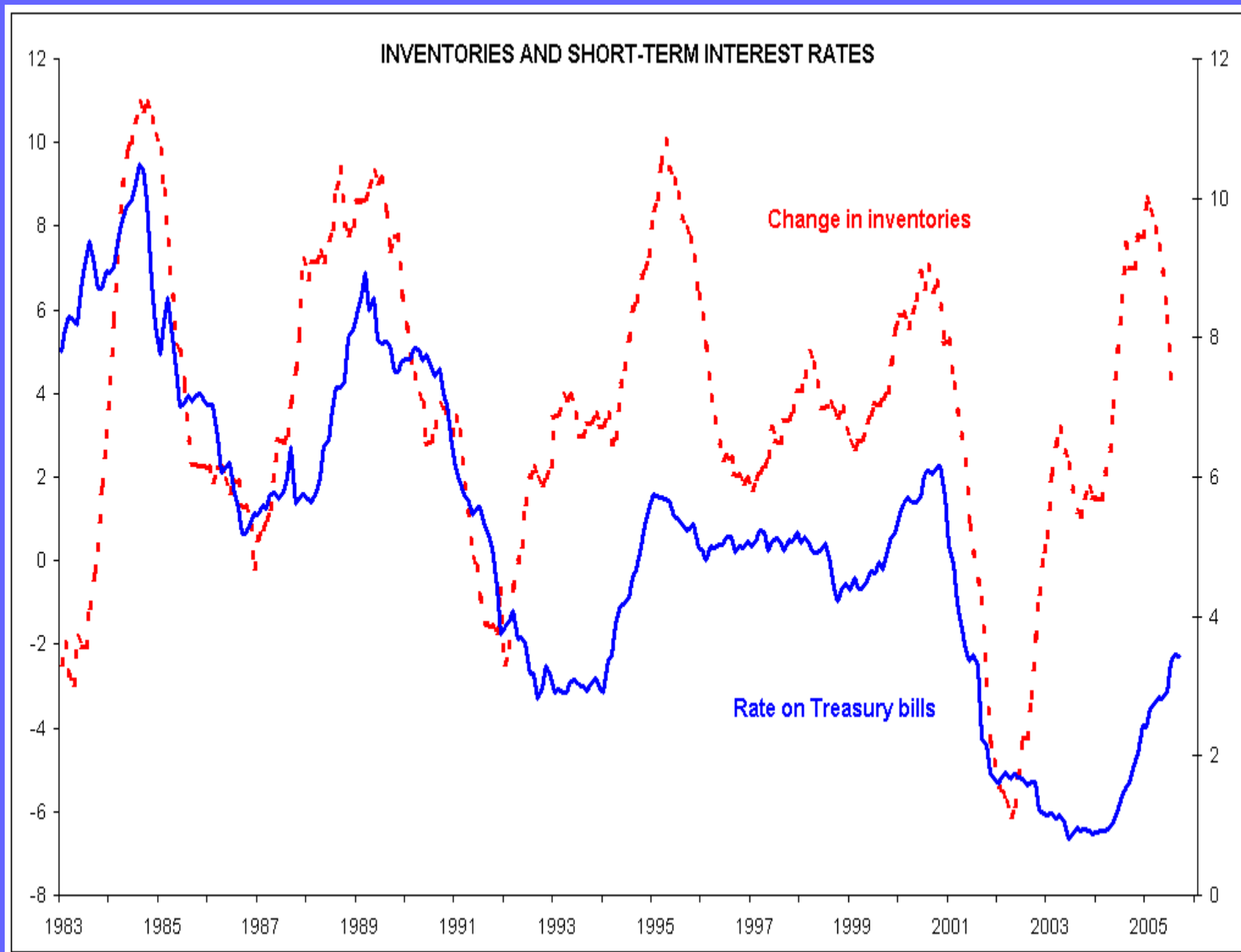


## EARNINGS PER SHARE AND COMMODITIES

Earnings per share (S&P 500) and CRB: % chg, 12 mos

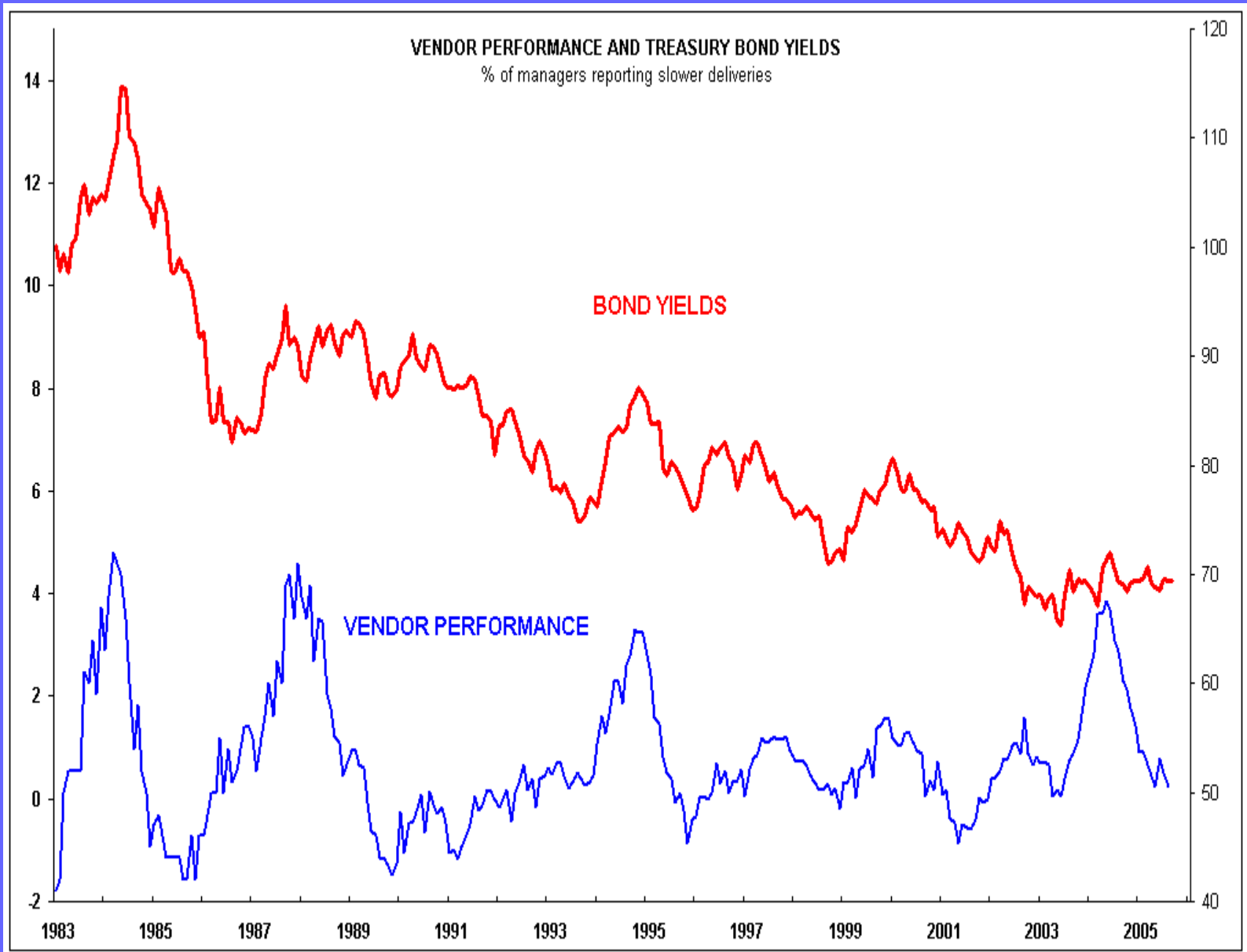






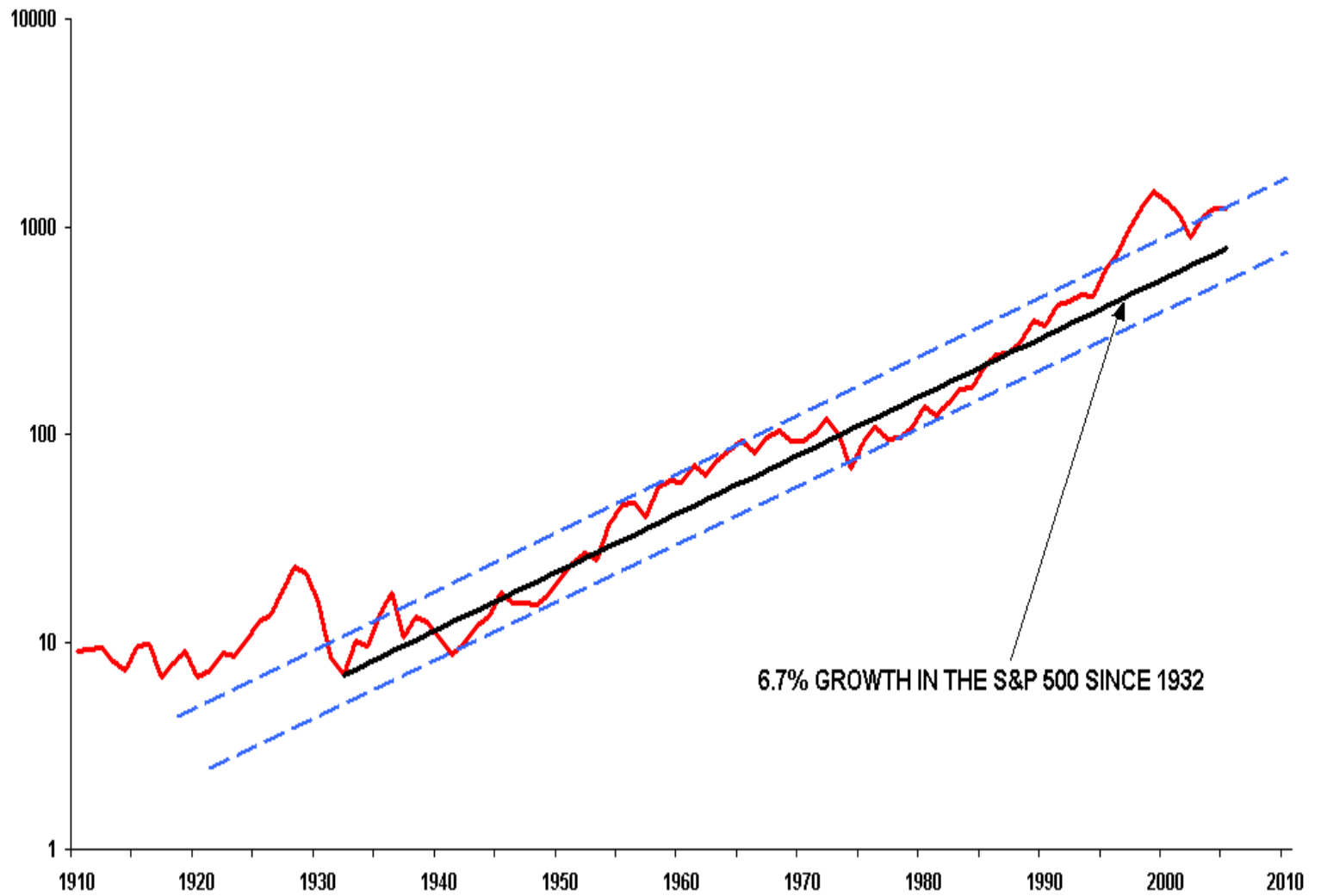
# **WHAT ABOUT BONDS AND STOCK MARKET?**

**I AM GLAD YOU ASKED**

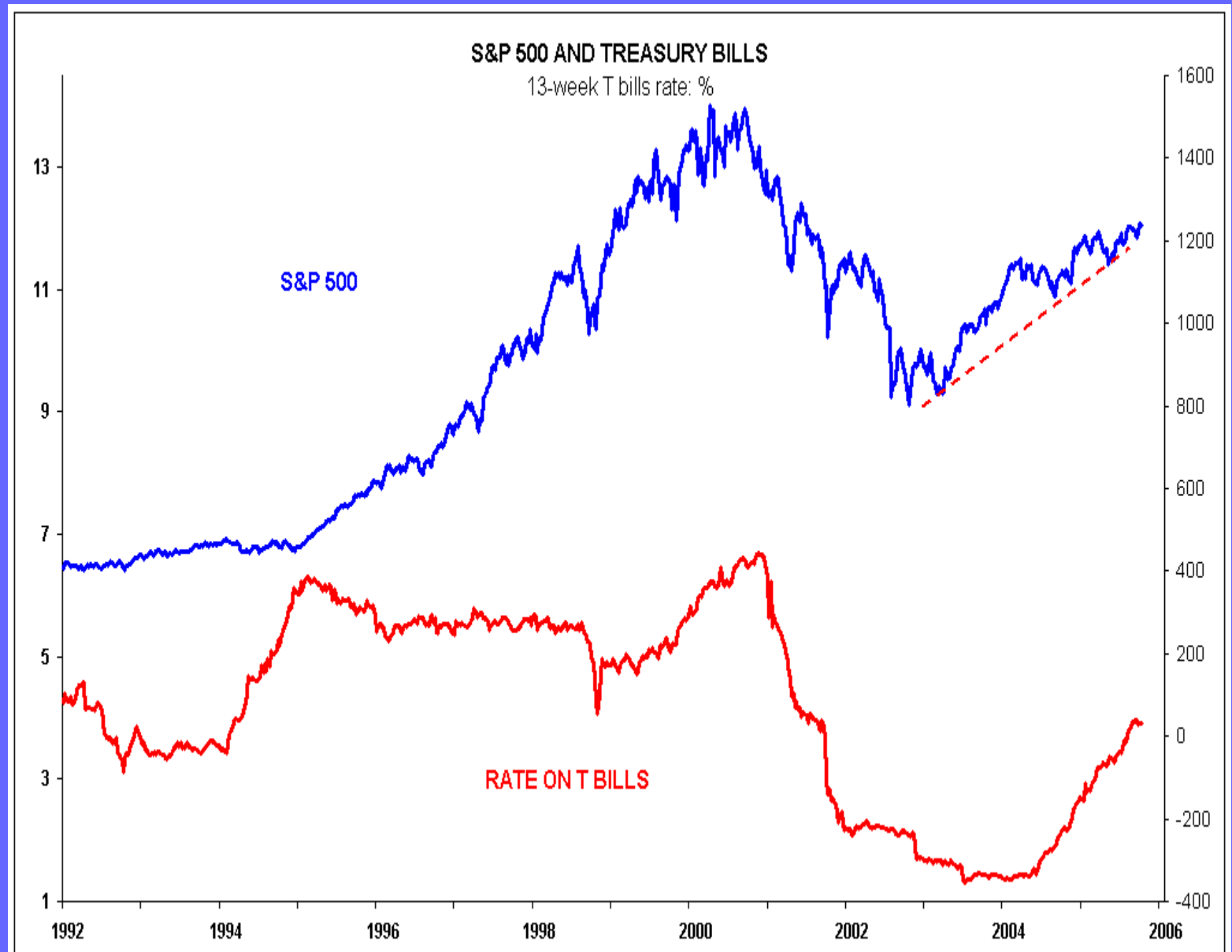




## S&P 500



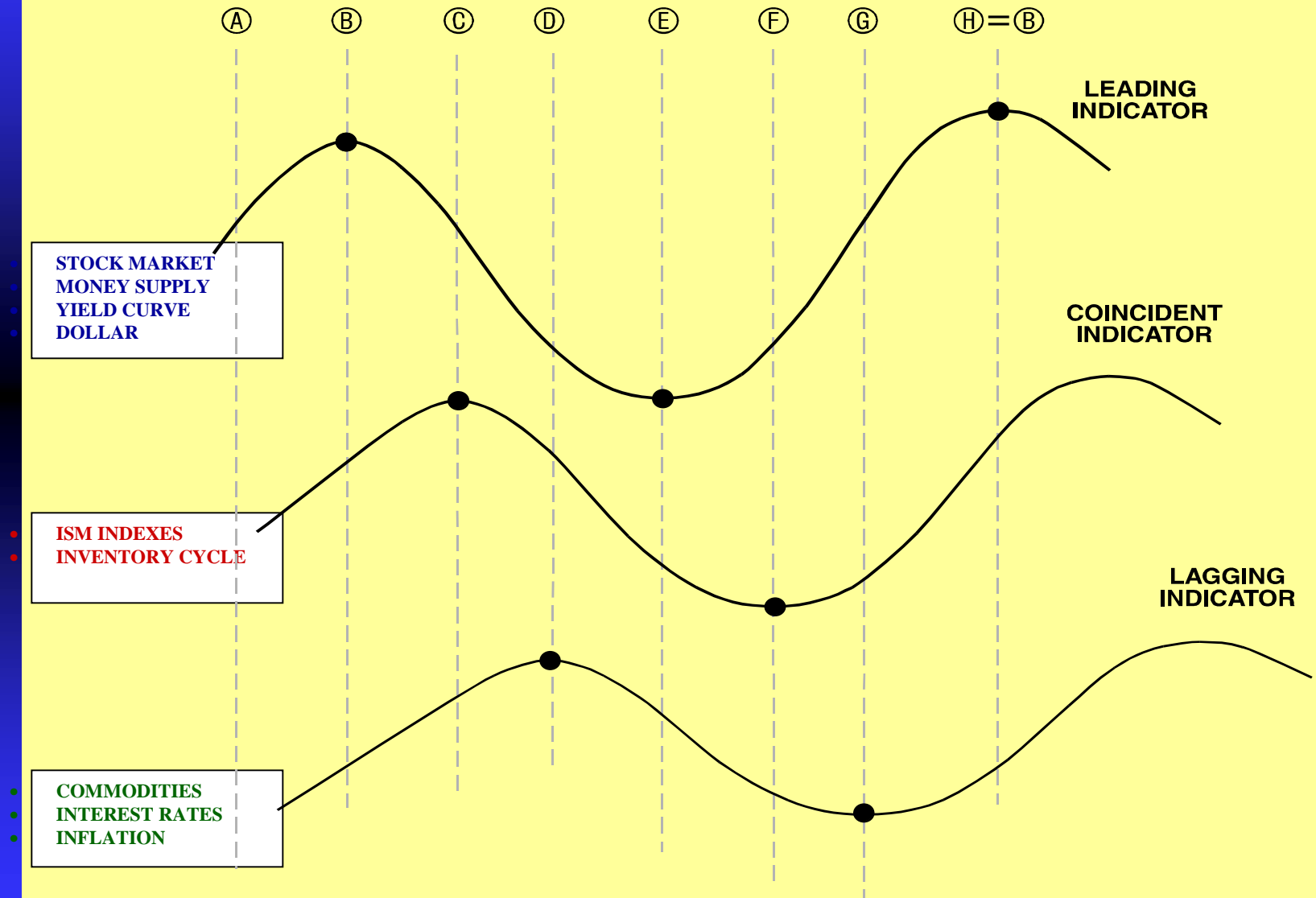




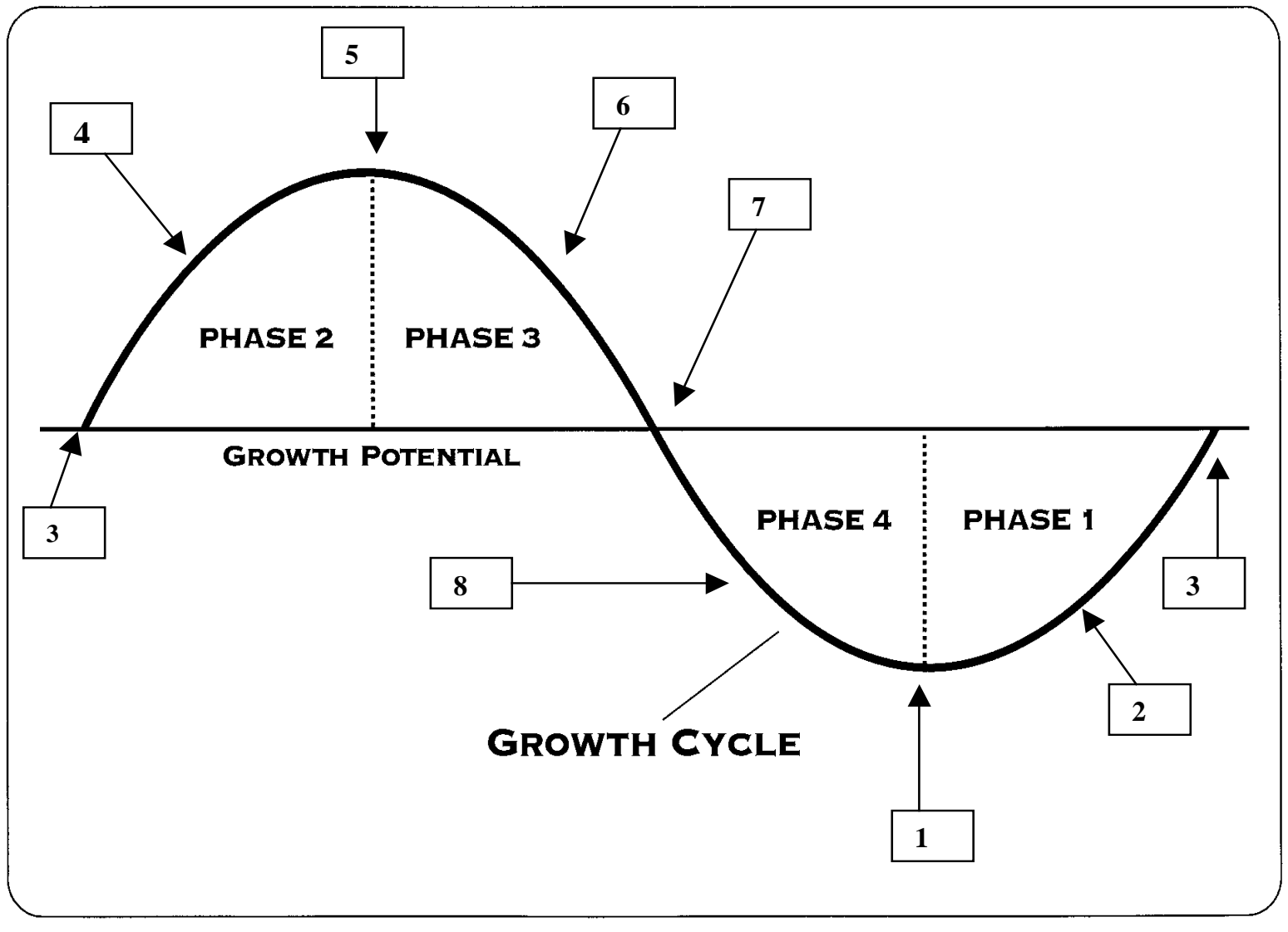
# **BUSINESS CYCLES AND ASSET CLASSES**

**WHERE ARE WE  
NOW?**

# BUSINESS AND FINANCIAL CYCLE CONFIGURATIONS



# BUSINESS CYCLE



# INVESTMENT ENVIRONMENT AND STOCK SECTORS

- **Inflationary times**  
(low real short-term interest rates)
- **Disinflationary times**  
(high real short-term interest rates)

# INFLATIONARY TIMES

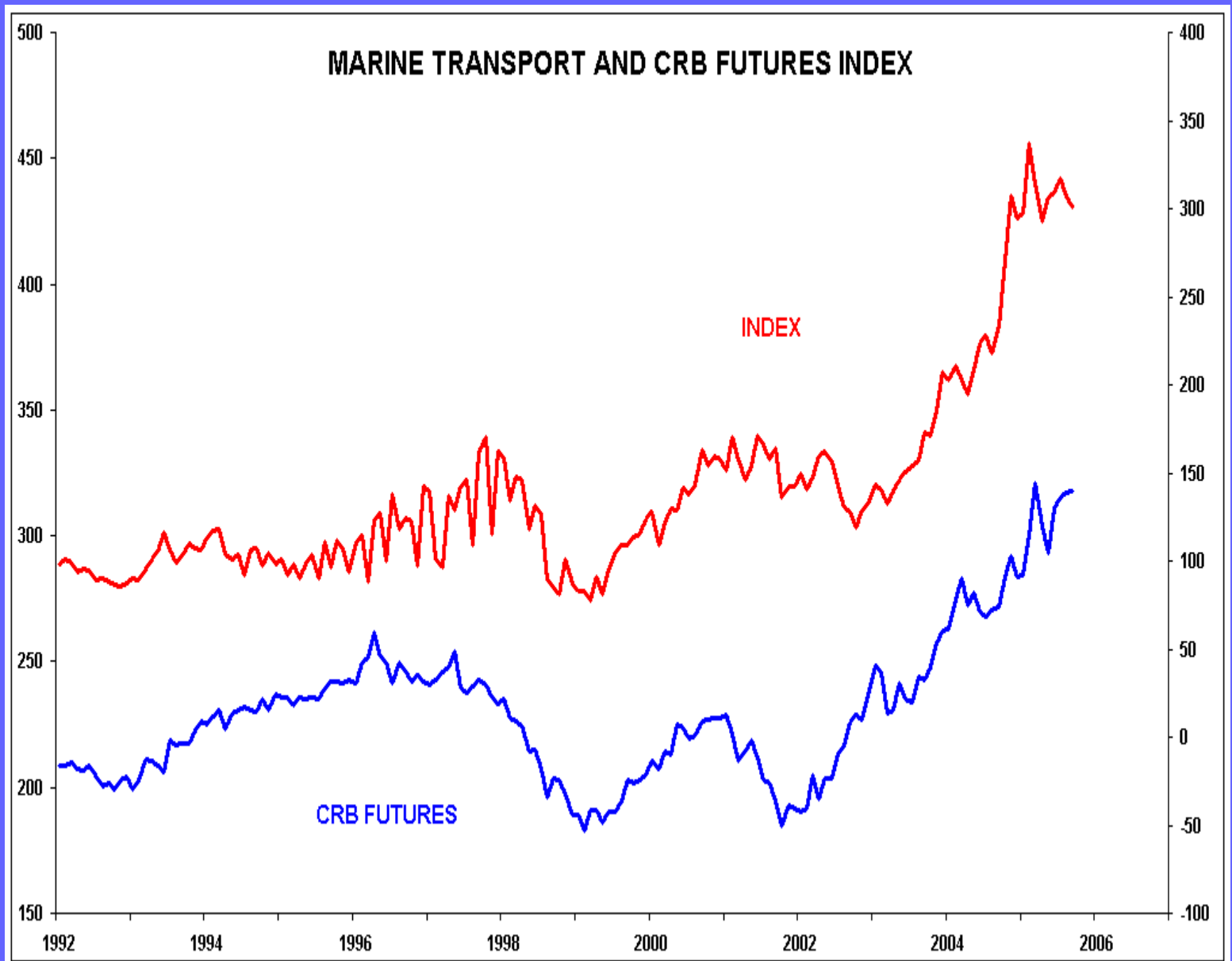
- **COMMODITIES RISING**
- **DOLLAR WEAK**
- **SHORT-TERM INTEREST RATES RISING**
- **BONDS WEAK**
- **STOCK MARKET WEAK**
- **ECONOMY - ABOVE AVERAGE PACE**
- **ASSET CLASSES** (Mining, energy, pipelines, marine transport, propane, containers, packaging, REITs, TIPs)

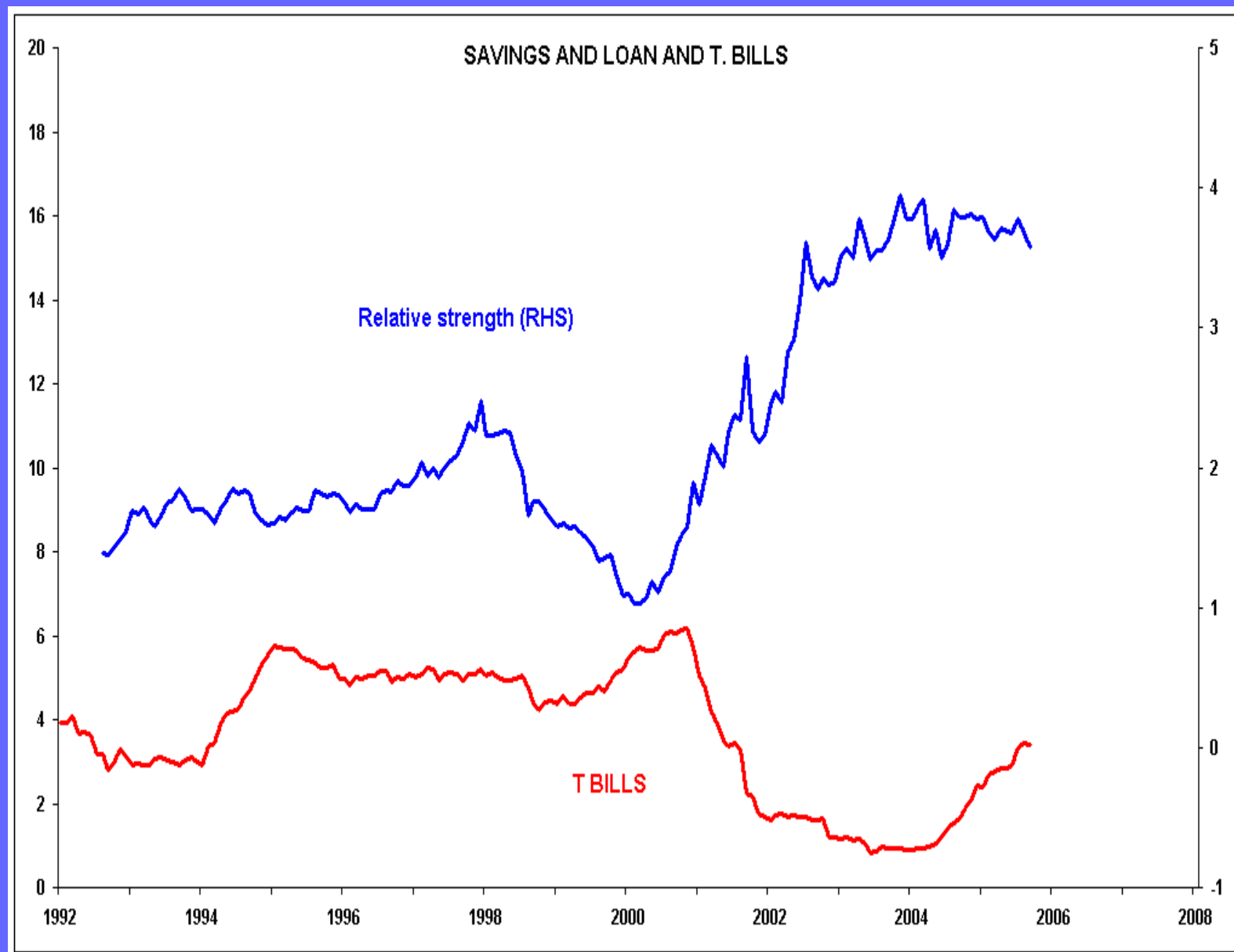


# DISINFLATIONARY TIMES

- COMMODITIES WEAK
- DOLLAR STRONG
- SHORT-TERM INT. RATES DOWN/FLAT
- BONDS STRONG
- STOCK MARKET UP
- ECONOMY - BELOW AVERAGE PACE
- ASSET CLASSES (Banks, Savings & Loan, Insurance, Household products (non durable), cosmetics, utilities, technology, high-grade and low-grade bonds)

# TWO EXAMPLES





# AS OF SEP 2005

## INVESTMENT ENVIRONMENT

IN SPITE OF AN INFLATIONARY BIAS  
DUE TO LOW REAL SHORT-TERM  
INTEREST RATES, THE BUSINESS CYCLE  
IS **TRANSITIONING** FROM AN  
INFLATIONARY TO A **MILDLY  
DISINFLATIONARY** ENVIRONMENT

**AS OF SEP 2005**

**INVESTMENT STRATEGY**

**Gradually** reduce inflation hedge  
stocks and move into **interest rates**  
**sensitive assets** such high grade  
bonds, low grade bonds, and  
eventually banks and S&L

# *PETER DAG*

## INVESTMENT PROCESS

- Establish business cycle scenarios
- Select sectors with rising relative strength
- Select best stocks within each sector
  - ◆ Low PE, with yield
  - ◆ Select low volatility stocks (charts)
  - ◆ Select best performing 5-10 stocks
  - ◆ Financial analysis

# *PETER DAG*

## INVESTMENT PROCESS

- ◆ Select stocks with best financial performance, low debt (3-5 years)
- ◆ Compare charts ... again
- ◆ Selects stocks with low volatility, best long-term performance
- Know what, when, why to buy/sell
- Risk management: buy/sell gradually



# INVESTMENT FALLACIES

- **BUY-AND-HOLD**
- **AVERAGING DOWN**
- **DIVERSIFICATION**
- **ETF'S** (Volume and buy/sell, spreads, buy best stocks)
- **MUTUAL FUNDS** (Selective strategy, stocks, low grade bonds, short)
- **RECIPE MANAGEMENT** (Growth, income, aggressive, growth and income, intl.,.)

**DID YOU LIKE  
THIS PRESENTATION?**

**I WILL BE DELIGHTED  
TO MAKE A  
SIMILAR PRESENTATION  
TO YOUR  
INVESTMENT GROUP**

***THANK YOU!***

**NEBC**