



# Income Builder Weekly

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## Laying Out A Strategy For The Next Cycle

What is our statement of gratitude for 2008? First, that it's over and second, that we invested in only two banks which flamed out (we sold Citigroup earlier). We even made money on one bank - 20%. Banks provide a great instruction for us as we look forward.

In hindsight, 1982 began a super cycle of stocks and credit. Marching together, they creamed almost anything else until the beginning of this decade. Then the super cycle of commodities began to emerge, followed closely by a major move in real estate. The super cycles were on steroids in Emerging Markets (such as those in Asia and Latin America) until the end of 2007.

Now, with everything trashed but Treasury bonds, what do we do? A peek under the hood at "stocks" tells an intriguing story. The 25 years just ended in 2007 saw the "growth" stock era of ascendance. For perhaps the first time, hordes of people flocked to make money by betting that stock prices would move up, and up, and up. And they did - for a time.

Actually, the underpinning notion behind the growth in stock prices had merit; stocks grow logically when earnings grow and earnings grow in aggregate when economies grow. Additionally, there is the occasional cannibalizing effect among stocks, where the earnings of one group peak and begin to decline and another group makes ascendance. During the last 25 years prior to the end of 2007, one did not worry much about cannibalizing; economies were growing by leaps and bounds and bringing along with them growth in corporate earnings.

But the music stopped and stocks, gold, oil, corporate bonds and confidence crashed in 2008. We believe that the "growth" stock will be out of favor for some time in terms of an overall push forward - that cannibalizing from company and sector to another will be the only way to make big money by betting on stock price appreciation. We believe that the next era will be that of the income investor. Hey--that's us!

We have never seen such opportunities for income investors and may not again for some time. Even now, having climbed somewhat out of the basement, we can find good income opportunities which yield more than 10%. Think about it - a 10% yield on income alone. Obviously, these yields are not without risk but most of the risk - overconfidence - has been wiped away. It is now time for these income plays to slowly make their way back to overvaluation.

Those of you who endured last year with grace should be applauded, for surely the coming years will reward you beyond what you had thought possible. The rewards of the race may not go to the swiftest, but they surely go to those which finish! In investing, the race is never over - until you pull out.

In short, we believe that we are entering a golden age for investors. We are making a few adjustments to portfolios in this recognition. We are:

- More funds
- Peeling back individual stocks a bit
- Aiming for higher yields than we had even six months ago
- Broadening and diversifying

The basis for our actions lie in the study we did about high yield vs. moderate yield income investing. We found that high yield investing, although there is no growth in yield, still trumps lower yield investing, provided that one "reinvests the difference."

The average yield in your accounts had grown to about 7.5% by last fall. After we do a slight remodel, we will raise the yield to 9% or slightly above. By so doing, our payouts beginning at 4.5% have plenty of room to grow with inflation as we reinvest the difference in more income for you. We are very, very excited about this opportunity. It is truly once in a lifetime.

Thank you for investing with us - really. We love this work and are very pleased that we can facilitate an uninterrupted stream of income checks to your in-boxes.

*Jim Pursley*

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