MARKET OUTLOOK
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Where have all the heroes gone?

A few weeks ago I blogged **(www.marketowl.com)** about my anger over the current energy problems. I wrote that during the upcoming presidential election I was waiting for a candidate who would step up and offer a solution to the problem of U.S. oil dependency.

I got several "atta boy" responses from readers who liked my reasoning. I also received an email from a reader who apparently believed I don't have a full understanding of the depth and complexity of the problem.

The situation has remained on my mind since then, as I suspect it has for many Americans who are stunned by the recent price inflation in energy and other commodities. I have since decided I was naive to expect a solution to come from one of our presidential candidates.

While history might someday look favorably on both Obama and McCain, my experience with politicians is that they tend to be self serving. That experience includes more than a decade as a journalist and many years in international business where I dealt with numerous politicians in multiple countries.

So I have tempered my expectations because I do not think either candidate worries for even a second about how much it costs to fill up his airplane or limousine.

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I need a hero.

Right now the future of America (and possibly the world) depends more on a hero than on a president. My definition of a hero is someone who rises up to meet a challenge presented by extraordinary circumstances.

A hero might be a national leader, such as Abraham Lincoln. Or heroes can be just normal folks, like Wilbur and Orville Wright. In addition to men like Winston Churchill or George Patton, my list of heroes includes Thomas Edison, Alexander Bell, Henry Ford and Albert Einstein.

Heroes can come from unexpected places. Philo T. Farnsworth was a 14-year-old Idaho farm boy cutting hay when he came up with the idea for a machine that six years later would become the first television.

Heroes often have the vision to realize the solution to problems that many still have not recognized. In 1986, I was typing my master's thesis on an electric typewriter. Each revision required a complete retyping.

Although I had been using computers for writing for several years, they were all workstations attached to mainframes and there was no easy way to transport data from one computer to another. The idea of working on an independent computer on my own desk, saving the information to a disk, and then transporting it to another independent computer was fantasy.

Four years later I was working in Russia on a laptop computer. Mainframes had been replaced by personal computers. Virtually every computer was using a Microsoft operating system and a guy named Bill Gates was on his way to becoming the world's richest person.

By 1992 I was still in Russia and we were using this new thing called the Worldwide Internet to transmit information back and forth from the United States instantly.

I was in Russia a week after tanks were driven into central Moscow to quell an uprising of people who were fed up with a Communist system that no longer functioned. But when the tanks reached the crowds Boris Yeltsin, the former city mayor and a political outcast, climbed on top of one and called for a change.

Yeltsin begged the soldiers not to fire on their own citizens and they complied. In that instant the Communist government lost power and democracy prevailed without any bloodshed. The entire world as we knew it changed virtually overnight.

As a boy, I remember watching a 12-inch black and white television as Neil Armstrong took mankind's first steps on the moon. The goal for sending a man to the moon had been outlined less than 10 years earlier by President Kennedy.

I remember listening as President Reagan proposed a plan called the Star Wars Missile Defense System that would use smaller missiles to shoot down Intercontinental Ballistic Missiles fired at the United States. Detractors said it was impossible, but the technology now exists and the U.S. is currently negotiating to establish missile defense sites in Eastern Europe.

In general, change makes people nervous. In the 1970s and 1980s there was a lot of concern that people would lose jobs because of computers. Today the computer and software industry is enormous.

My great-grandfather was a blacksmith. I'm sure he was worried about the shift from horses to automobiles. Today the transportation industry remains huge and robust. We have little need for blacksmiths, but the country has not suffered as a result.

So when people tell me that it will take decades if not generations to find a way to replace oil as an energy source, I get a little defensive and a little ticked off.

Perhaps it will take decades, but just possibly some 16-year-old kid has already figured out the answer in his basement. And as long as some big oil company or automaker doesn't find out about it and pay him a few million dollars to forget it, the energy and transportation world as we know it could transform in a couple of years.

I don't know whether 10 years from now we will all be riding electric scooters or cars that run on hydrogen. I do know that as soon as a viable option to oil is available, people will eagerly embrace it, a massive new industry will be born, and the world's political climate will transform again.

In the process, investors who are properly positioned will make a lot of money.

—Flint Stephens

Mr. Stephens is marketing director and a financial advisor for Strategis Financial Group. He has been a writer and editor for numerous investment publications. He has a masters degree in communications from Brigham Young University.

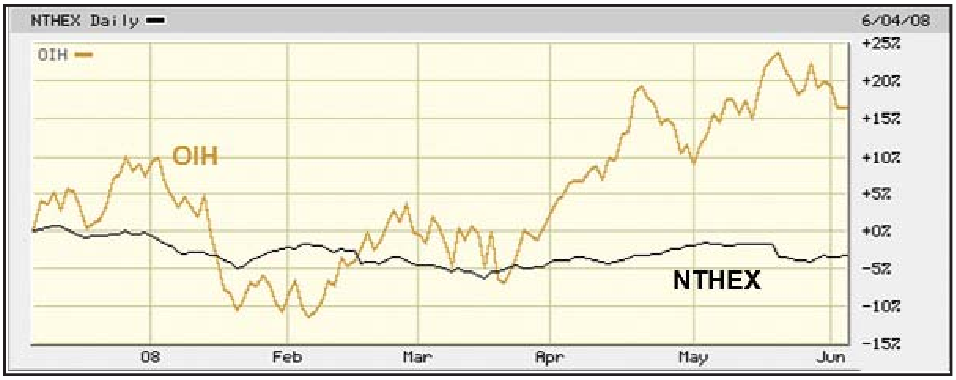
Role of market volatility often misunderstood

Volatility might be one of the most misunderstood aspects of the financial markets. In general, investors think volatility is a bad thing—at least when it works against them. In actuality, we don't mind volatility when it is working for us.

You never hear anyone say: “That stock I bought has gone up 10% a day for the past month. I'm getting dizzy trying to keep track. I just wish it would slow down.”

Another investor misconception is that volatility equates to risk. While there is often a high correlation between risk and volatility, that is not always the case.

A good illustration is shown on the chart at the top of the next page. The gold line is the daily price activity over the past six months of OIH, an oil ETF (exchange-traded fund). The black



line is Northeast Investors Trust (NTHEX), a high-yield bond fund.

Notice that the price movement of OIH is much more volatile than NTHEX. Yet over the period shown here, OIH gained more than 15% while NTHEX lost about 4%.

Looking at the chart, almost every investor would say that they would rather be invested in OIH during this period than NTHEX. The reality of the situation, however, is that many—if not most— investors probably could not have endured the emotional turmoil of being invested in OIH during this time.

Consider that at the end of the first month, OIH was up about 10%. But over the following month, OIH gave back that entire gain plus an additional 10%. That is a 20% loss in just over two weeks.

As a financial advisor, my experience is that not many clients could withstand that type of market action. They would be calling and canceling their accounts.

We could try explaining that we believed oil prices would continue to rise and that when that occurred, OIH would recoup its losses and post good gains. But it would be difficult to convince investors to hold their positions when the possibility of additional losses remains.

On the other hand, an investor who owned NTHEX during this entire period might not be too worried even after seeing a 4% decline, just because day-to-day price movements are slight. The investment does not have the emotional roller coaster of OIH which can gain or lose 4% in a single day.

Volatility is uncomfortable when its direction is uncertain.

Perhaps the most commonly used tool to measure investment volatility is standard deviation. Standard deviation is a reflection of how much an investment's price varies from its mean price over a specific period. But as already explained, variance from the mean price is only bad when it is below the mean. Investors have little trouble with volatility above the mean.

A better tool to measure negative volatility is called the Ulcer Index. This indicator was devised by Peter Martin in 1987. It is designed to measure volatility in the downward direction.

The name is derived from the idea that it is only this negative volatility that causes investors stress that can lead to ulcers. To learn more about the Ulcer Index including exactly how it is calculated, go to **www.wikipedia.org** and type in Ulcer Index.

By virtually any measure, this year has been uncomfortable for investors. There are virtually no sectors with any kind of long-term trend. The chart below shows the price action of the Nasdaq over the past year and its action is similar to the other major indices.

We continue to look for profit opportunities, but for now the best course is to protect assets in a down market.

Investment Company Act, Rule 3a-4

As your investment advisor, we are required by the Investment Company Act, Rule 3a-4, to make recommendations in accordance with your individual needs and financial circumstances. We must also periodically check to ensure that these needs and circumstances have not changed. So if there have been changes in your financial circumstances, please contact your advisor at **1-800-279-3377**. We will be happy to make any necessary adjustments in your portfolio selection.

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If you desire a copy of our most recent written disclosure statement, please sign and date this form in the space provided below, and return it to us at your earliest convenience.

Sincerely,
STRATEGIS FINANCIAL GROUP, INC.

By:
Richard Reid
Compliance Officer

Date:__________________ Signature:____