BONDS

Scarsdale Investment Group, Ltd.

All Bond Portfolios

All-Bond Newsletter **December 13, 2010**

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Dear Hildy,

Are you interested in achieving financial independence, where your passive income supplies all your cash needs? Who isn't? Why do we suggest the All-Bond Portfolio as the sure-footed pathway to financial independence, even thougl this runs counter to the long popular notion of "stocks for the long run?"

Please let us address your questions by asking here.
Best regards,

Hildy Richelson, Ph.D.
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Achieving Financial Independence

What are your chances of achieving financial independence if you invest in bonds? Financial advisors are only too eager to have this discussion with you, but they may tell you that stocks and asset diversification for the long run are the true path to financial independence. Our approach is different.

There is so much media attention on what to do next that it is often difficult to find and adopt a path and then stay on it. We are buffeted by information that tells us what we have done is no longer acceptable and how to improve by selling what we own and buying something new. There is always something new and improved making what we have feel dull and tarnished in comparison. Your stocks or funds are not good enough, sell now, buy now - Oops! You sold at the high and bought at the low price. And then you did it again! However, you are in good company because that is more often than not the result for individual investors.

Your friends will tell you about how they made a 40 percent gain in this or that, making you feel small in comparison. Or they will muster a story about one of their own successes, sweeping under the rug their trading mishaps. It is only when there is a massive market crash like there was in 2008 that people feel OK to share the misery that has befallen them. Then losing was not their fault. It was the fault of the economic malaise of the times.

We are not taught about financial matters in any structured or systematic way. We are supposed to know somehow by osmosis. Men in particular are supposed to have the financial gene that endows them with investing genius. If we are lucky, we might have had a parent or someone in our life that knew something about money and investing. Or perhaps you learned in the school of hard knocks what it means not to have a dollar when you wanted it and found a way to hold onto what you have. In either case, you probably developed an investment pattern that is that you now follow.

Jim Delpino, a clinical psychologist, describes how important it is to find good coaches in all aspects of our lives in an article from Icon magazine posted on www.lovein90days.com. Psychologists have found that the adage "Old habits die hard," reflects reality. Jim reports that "People in general are more likely to repeat than they are to change... If we have been doing the same thing about a problem for the last five years, we are most likely to address that same problem the same way in five years from now. This is true even if the approach to the problem has failed over and over again. Pride and stubbornness along with fear and lack of knowledge can work together inside of us to sabotage success... With enough repetitions of failure, many of us give up hope and stop trying to achieve our goals."

If you are stuck in a rut, how do you turn around your financial situation? You might read books and carefully find an advisor who does not have a conflict of interest to help you. John Train in his book, The Money Masters, describes different roads to success followed by the best money managers. He writes about Warren Buffet, Benjamin Graham, Philip Fisher, T. Rowe Price and others. But the lessons he draws from his exercise are only generally helpful. Buy what you know, buy low, stay away from high yield, and "invest, don't guess."

It is on his suggestion to invest and not to guess that brings me around to bonds. Investing in high-quality bonds is really investing. You can anticipate the return of your principal at the bond's maturity date, and you know how much interest you will be paid each year. Of course there is no way to predict the direction of interest rates, so you cannot predict with certainty what your return will be from the reinvestment of your interest payments. But you do know that your investment will grow despite market fluctuations. The likelihood of losing money is small. This is a powerful strategy.

Consider if you bought stock for $100 and it lost 50 percent, so now you had $50. If the stock then gained 50 percent, you have $75. This simple example shows you how hard it is to recoup your losses. The media tells you that without taking risks you can't make money, but they don't tell you what to do if you have lost your capital. People are eager to takes risks until they have lost money.

At the Scarsdale Investment Group, Ltd. we suggest that you take your risks in your business life and keep your capital secure, providing a predictable cash flow, and growth as well if you reinvest the interest. You don't need market timing, where you are bound to lose. Individual bonds come due and return your principal.

Our philosophy has always been to seek out highly rated general obligation bonds, and bonds backed by revenue streams from essential services like water or sewer that generally carry the lowest risk of default. These are examples of what we call "plain vanilla" bonds in our bestselling book Bonds: The Unbeaten Path to Secure Investment Growth, (Bloomberg Press, 2007).

Just click on the link below to forward this email to your family, friends and associates who might benefit from seeing this article. We would be pleased to set up a call to discuss our bond investment program with you or anyone you might refer to us.

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