



President's Corner

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CLEAR AND PRESENT DANGER

In today's increasingly complex and challenging environment with lower interest rates, and a mirad of new and unfortunately sometimes "extreme creative" (see our comments on toggle notes – President Newsletter issue 0207-01) new fixed income product.

Many retirees and others are being enticed or lulled into the purchase of these "revamped or reinvented" fixed income products such as leveraged exchange traded funds. The individual motivation for such additions to which should be most cases be conservatively constructed portfolios is very simple, more income. This is basically the same motivation that cost many seniors (and those contemplating retirement) substantial sums with the beginning of the unraveling of the "tech bubble" in the spring of 2000.

Not only are we seeing a dramatic increase in the use of leverage in these new products, but in addition substantial portions of some of these new products are backed (funded) by junk debt (again, please see our newsletter issue 0207-01), quality debt being increasing difficult to come by.

One might wonder how such potentially risky (or dangerous) product came to be in a regulated environment, or why Wall Street would have credited it. Well, it's not illegal in the present regulatory environment. As to why was such product created, well – money, money, and more money (fees). After all, why were billions of dollars in subprime mortgage loans ever made? Again, fees were generated.

IF YOU DON'T UNDERSTAND IT, DON'T BUY IT!
IF YOU DON'T UNDERSTAND IT, DON'T SELL IT TO YOUR CUSTOMER.

Recent Equity Price Earnings Ratios:	Current	Year Ago
Dow Jones Industrials	17.00%	21.80%
S&P 500	17.26%	18.00%
Russell 2000	39.22%	43.20%
NASDAQ Composite	25.07%	32.70%

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