

# GURUNReport

*A timely message from GURUN INVESTMENT ADVISORS, INC. for its valued clients*

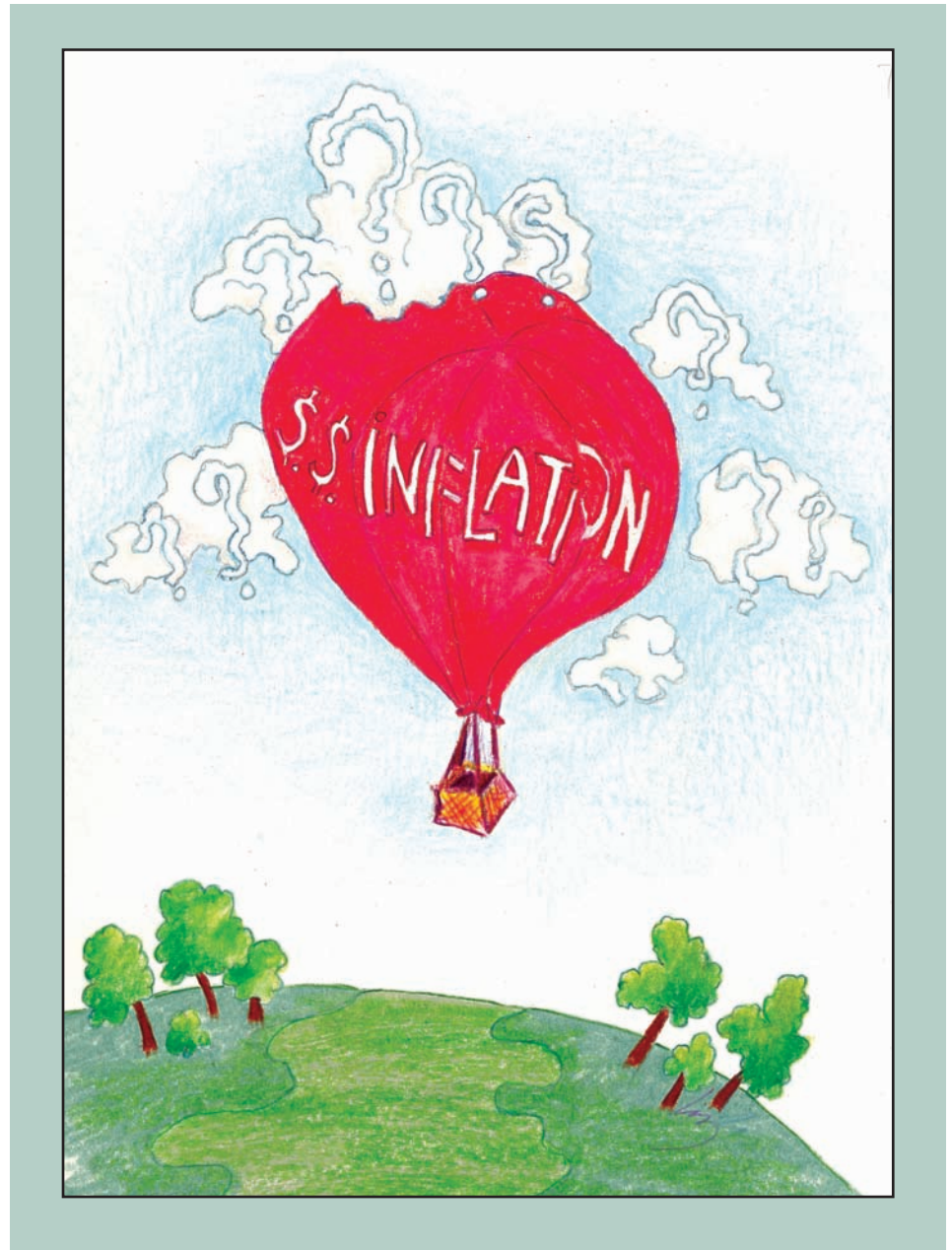
## The dreaded word “Inflation”

Everyone talks about inflation and no one seems to understand the numbers provided by our official sources. For some reason, daily expenditures for energy and food are excluded by the government when calculating benefit increases for Social Security and other entitlement programs.

Inflation is the upward price movement of goods and services and is classified into four main categories:

1. Demand-Pull Inflation—the total demand for goods and services exceeds the available supply.
2. Cost-Push Inflation—the cost of production rises and forces up the price of finished goods.
3. Pricing Power Inflation—when businesses decide to raise their prices to increase their profit margins.
4. Sectoral Inflation—this is when a basic industry, like energy, forces up prices throughout the economy

The historical reaction to controlling inflation is to increase short-term interest rates. The Federal Reserve has recently stepped up its rhetoric on price stability and the need to keep inflation expectations in check. Despite the Fed’s concern of an economic slowdown driven by a depressed housing market,



rising commodity prices and stresses in the financial markets, it appears the Fed’s next move will be to raise interest rates.

One factor that is different in today’s economy is that with the accelerated GDP

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This issue of the

# GURUNReport

has been prepared by

**Gurun Investment Advisors**

to help you understand and achieve your long-term financial objectives via conservative investment management.

## *Gurun Investment Rule #6*

*99% of all information is noise.*

## *Gurun Investment Rule #7*

*The market can stay irrational longer than you can stay solvent.*

## *Gurun Investment Rule #8*

*Beware of all forecasts...be a sensible skeptic.*

## **Inflation** from page 1

growth in the “BRIC” countries (Brazil, Russia, India, and China), there could be true imbalances in supply demand, as opposed to speculative induced imbalances. In this sense, if the growth of these economies continues at an accelerated rate, then some inflation in the world economy is not as negative as inflation induced by financial issues and speculation.

Portfolios managed by our firm are designed to mitigate the impact of inflation and higher interest rates. In order to offset the erosion of purchasing power in an inflationary environment, our philosophy for the common stock allocation is to stay fully invested in high

quality securities that pay a dividend and increase their dividend annually. For fixed income obligations, we generally restrict the final maturity to five years or less and construct a laddered bond portfolio so proceeds from periodic maturities are reinvested at the higher interest rates.

With this strategy, we feel an investor has a chance of staying up with and hopefully beating the inflationary biases that have surfaced in our economy. This blends very well with our underlying investment premise to regularly rebalance portfolios and to stay fully invested to eliminate market timing issues.

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**GURUN** Conservative Investment Management  
INVESTMENT ADVISORS

## **GURUNSPEAK**

An Investment Glossary

### **Bull Market**

A rise in the value of a market by at least 20%. A bull market is generally characterized by optimism, increased investor confidence and an expectation that strong results will continue. The most famous bull market was in the 1990s when the global financial markets grew at their fastest pace in history. It got its name because when a bull attacks, it throws its horns up in the air

### **Bear Market**

A prolonged period where prices generally decline more than 20%. The most famous bear market lasted from 1930 to 1932 after the Wall Street Crash of 1929. A milder, long-term bear market occurred from 1967 to 1982 as the economy wrestled with stagflation, the 1970s energy crisis and unemployment in the early 1980s. Economic cycles and investor sentiment both play a role in the creation and momentum of bull and bear markets

### **Market Correction**

A relatively short-term drop in stock market prices (usually 10%), generally viewed as bringing overpriced stocks back to a level closer to a company's actual value. A Market Correction differs from a bear market in that it is shorter in duration with a smaller magnitude of decline. Investors often use corrections to enter the market at more favorable prices.