NEWSLETTER: SPRING 2009

Eric Bruck, CFP®
President

President's Message

Dear fellow FPA member:

"…More realistically, what if, starting now, we began a munificent period of rising stock prices over a multiyear period of, say, 11% a year? If that happened, it would take eight years to get back to the October 2007 highs. To put all this in historical perspective, the average annual return for the S&P 500 over the past 83 years, since 1926, has been 9.7%. If the market rose at that historic rate, it would take more than nine years to get back to the October 2007 highs."

Peter Tanous – Pres. & CEO of Lynx Investment Advisors LLC, Washington DC; from Op-Ed WSJ 3/30/09

The world of financial advice has endured a sea-change in recent months. As trusted advisors to our clients and caretakers of their wealth, we are probably for the first time being confronted with circumstances we have never before been compelled to face, much less explain.

The stress our clients have been dealing with is only matched (and perhaps exceeded) by that which we have been feeling ourselves. After all, we typically invest our own money alongside our clients with a similar investment policy orientation.

I have suggested at chapter meetings in recent months that we as advisors have a responsibility not only to our clients but to ourselves – to preserve their wealth as well as our own, and *to stay in business* – to live to fight another day. If nothing else positive comes out of this bear market, perhaps it will be a lesson derived from the quote by Mr. Tanous in the passage above; i.e., getting back to even from heavy losses (even with a strong v-shaped recovery) can take a very long time.

Regardless of one's belief in the efficiency of markets and an inevitable recovery awaiting us down the road, the road back to "wholeness" *will* be a long, slow and arduous one. If one accepts this as true, perhaps a more defensive, flexible, and economics-oriented (vs. markets-oriented) approach could provide an answer.

Even for advisors, cutting through the barrage of frenzied market reports offered daily by pundits and commentators can be a daunting challenge. To the many who rely on it exclusively, it is at best confusing and at worst, hopeful or discouraging, depending on the nature of the news and its impact on the stock market that particular day.

Take the recent announcement that Rick Waggoner, CEO of General Motors, Inc., has been asked to step down by the Obama administration. Add to that Treasury Secretary Geithner's comment yesterday on George Stephanopolous' *This Week* that "some banks are going to need some large amounts of assistance." The Dow Jones Industrial Average closed down that day 254 points.

In contrast, when the administration announced its plan to save the banks and form a private/public investment partnership to buy bad assets at "fair market" prices, the market immediately sprang to life and a bear market bull rally ensued for over three weeks. It has been sustained by another piece of news: the "mark-to-market" rules have been favorably amended.

What did these pieces of news have in common? First, they each reported actions being taken by the authorities were perceived in a particular way by investors and acted upon. They by no means reflected an outcome. But they did inspire hope. Second, and most importantly, neither story revealed anything that reliably changed the economic outlook for the financial system, which ultimately is the determining factor in a sustainable recovery and future bull market for stocks. At best, they inferred that we may be headed in the right direction on this long and arduous journey.

After all, the market is a reflection of, and driven by two things: *perception and fundamentals*. Long term, the underlying health of the economy which ultimately drives corporate earnings and profits is governed by *fundamentals*. Short term, the daily news and noise that flash trading signals to traders and motivate emotional bets by investors is driven by *perception*. *It is the news reliably supporting improving economic fundamentals that we should be listening to and studying.*

We may be ideologically committed to staying this very long and very steep course. However, how willing and able will our clients be to endure possibly even deeper losses in order to *not* miss a recovery which, as Mr. Tanous infers, may have to be even stronger to make our portfolios whole.

As investment advisors, it is our statutory duty to always caution that *past performance is not a predictor of future returns.* Why shouldn't this forbearance apply when we are considering a deep recession and bear market brought on by excesses that have severely wounded our global financial system at its core? Why should past market cycles and historical return patterns repeat themselves? Where is *that* written?

Financial advisors as a *profession* should study and think more deeply, broadly and *independently* about what has caused this crisis, and what it will realistically take to move us out of it from here. Most importantly, the profession (that's you and me) must consider the implications our conclusions may have for the well being of the public who entrusts us as caretakers of its wealth.

Sincerely,
Eric Bruck, CFP®
President