



# Wealth Architecture™ Digest

*Often people do not plan because they see only what is, and they do not have a vision of what can be. Something is always possible. We believe that, with vision, the possibilities are almost unlimited.*

## What Can We Believe?

It is very difficult to plan for our futures, or invest our money, without having some idea about what to believe and what to discount as “hype.” With the explosion of the use of the internet, and those postings that are from people with their own agenda, the task is extremely hard. Like a high performance engine with clogged air and fuel filters, we move in starts and sputters instead of a smooth rise toward the finish line. Allow me to explain.

Two of the many factors that go into the investment decision matrix are investor behavior and investor sentiment. I believe that when people are scared, or believe that risk has gone up dramatically, they tend to hoard cash or invest in less riskier holdings. If they are convinced that high inflation is on the horizon, they may avoid bonds (and many stocks), and they can gravitate towards other investments that fit their needs. But where do they get the information that they might process as they form their opinions? How do they know what to believe, and whom they can trust to give them unbiased advice?

First, let me state what I believe to be axiomatic: *There is no such thing as unbiased advice.* Dictionary.com defines advice as “an opinion or recommendation offered as a guide to action, conduct, etc.” Opinion is **not** fact. It is not my opinion that two plus two is four; rather it is a fact. If I state, with conviction, that “the stock market will go up at least 10% this year,” it is only my opinion, regardless of how experienced I may be, or how “certain” I am. This is important because in the new world of instant

communication (and especially the internet), opinions are often taken as facts by people predisposed to believe the person giving the opinion.

For years I have heard and read various pundits say that the US dollar is headed for a major collapse. For example, on December 29, 2009 Christopher Laird wrote:

*I first came to the conclusion that it was roughly (and I am getting close here on timing, I'm sure of this) two years from 2010. Actually, the calculation is two more years of relative USD functionality before the world realizes in about a shocking week's time that the USD is just about to really go belly up.*

*(source: marketoracle.co.uk)*

So who is Christopher Laird, the self-proclaimed “Oracle?” Well. According to his website, “Chris Laird has been an Oracle systems engineer, database administrator, and math teacher. He has a BS in mathematics from UCLA and is a certified Oracle database administrator. Chris is the publisher of the Prudent Squirrel newsletter, an economic and gold commentary.” Would you consider his opinion *unbiased*? By the way, he ties his Armageddon economic theory to the 2012 end-of-the-world theory. Before you laugh, please understand that there are people who pay him for his newsletters and “advice.” According to finance.google.com, in the 14 months since he wrote his end-of-times article, the dollar is virtually unchanged against the British pound, and has risen against the euro.

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I have been a student of “predictions” for almost thirty years. In the summer of 1993, with the Dow Jones Industrial Average at just under 3,500, the market “guru” Robert Prechter opined that the equity markets were about to crash. The Los Angeles Times reported:

*“The market will most likely hit 3,600 to 3,700 on the Dow sometime this summer, the 44-year-old Prechter says. But soon after that, a bear market of monumental proportions will begin, he says, coincident with a devastating depression.*

*How monumental a bear market? Assuming the Dow peak is about 3,600, Prechter's target is for an ultimate low on the Dow of between 100 and 400. (Yes, you read that right.)”*

Source: LA Times 6/11/93.

In 1987 I was a subscriber to his newsletter, *The Elliot Wave Theorist*. He was so popular and self-confident, that you could call and ask him questions before making investment decisions by just giving your credit card info and paying \$60/minute (that’s \$3,600 per hour). No insider information, just Bob’s opinions.

While even a stopped clock is correct twice a day, the providers of predictions have a much more unpredictable record. According to Elliott Wave International, “In April 2010, Prechter wrote, “we can project a top ... between April 16 and May 7, 2010.” To find out more all you’d need to do is to subscribe to his newsletter. Looking back though, we know that from May 7, 2010 to February 18, 2011 the S&P 500 was **up** 18.93% (source: finance.google.com). If I’d believed Prechter’s prediction and sold on May 7<sup>th</sup>, I would have missed that rally – and I’d have paid him for the wrong advice.

We are in a very unusual time. That said, most times are “different,” be they good or bad. But today we do have the addition of the highly-

charged political debates going on here and abroad. With the “democracy” movements racing across North Africa and the Arab world, I believe there is significant risk of major interruption of oil supplies and a resulting new commodity price spike. Would it be temporary or long-term? Would it be peaceful? No one knows. What should investors do?

Part of the problem we currently face is that some of our political debate is being framed as the very survival of capitalism and the American way of life is at immediate risk if we don’t “balance the budget” – permanently. Some pundits are beating the drums and telling people to “own gold,” not as a part of a diversified investment program, but for protection against the coming cataclysmic fall of the dollar, international unrest, and hyper-inflation. But remember, we’ve been there before -- “...in January 1980 the gold price hit a record of \$850 per ounce against a background of an international crisis arising from the Soviet invasion of Afghanistan and the Islamic Revolution in Iran.” (source: infacts.ie) With gold bullion now about \$1450/oz., that means it has gained 70% over 31 years, while over the same time period the S&P 500 Index, after all its ups and downs, is up over 1100%! (source: finance.google.com).

On October 19, 1987 the Dow dropped 22% in one day, setting off a panic. When asked by a reporter for advice I said “I’m not prepared to panic and jump off a building. I’m not afraid to go back into the market.” (Source: San Jose Mercury News 10/20/87). The Dow had closed the day before at 1738.41, and was up over 530% by 2/18/11. Did I predict this? No.

But, just months before the tech-bubble burst, James Glassman and Kevin Hassett wrote: “Stocks are now, we believe, in the midst of a one-time-only rise to much higher ground -- to the neighborhood of 36,000 for the Dow Jones

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Industrial Average.” (source: *The Atlantic* September, 1999). I could go on with numerous examples of the fables and foibles of those who “know” what will happen. But I think I’ve provided enough evidence.

At the end of the day if we believe that, over time, businesses around the world will not just survive, but grow, we should be able to invest in a diversified global portfolio of stocks and bonds that should also provide a positive return over time. Certainly there will be periods of down markets – some prolonged periods. Normally, there is a correlation between risks taken and expected returns. They are related. My job, working with clients is to attempt to manage risk through diversification, asset allocation, and setting appropriate expectations. Very few things in life turn out exactly as planned. If I had one of those fictional “crystal balls,” I’d be very rich and very popular. What I believe I have is the honesty to advise against following the loudest voice telling us what we should believe.

## The Great Migration

Every year there is a “Great Migration” that sees approximately 2 million wildebeest, zebra and gazelle wander between Tanzania and Kenya in a virtual circle. They make this extraordinary trip because they must follow the supply of food and water that moves across the area through the seasons. It is fraught with dangers, from predators to floods, droughts, and poachers. Nevertheless, they go on as they have for eons, with the strong and the lucky surviving.

There are strong similarities between some of the wildebeest, zebra, and other animals who travel in herds for protection, and millions of investors who together migrate over time from stocks to

bonds, to cash, and back in a search for the sustenance of profits. Money flows into the markets as huge institutions feel that equities have reached their nadir, migrating to other investments when their research (or intuition) foresees a cresting wave.

The global market players (not the long-term investors) often get surprised by exogenous events, sometimes suffering crippling wounds. Some players, like Lehman Brothers in 2008, pay with their lives, like a wildebeest pulled under and torn apart by a hidden crocodile at a river crossing. An unseen -- but known risk -- that takes one by surprise, can be fatal.

For the wildebeest, forced by nature to keep moving in search of greener pastures, the survival of the species is the law of large numbers. Some will definitely die from known and unknown events, but most will survive. For investors it is the same. Many individuals, as well as some institutions, will suffer or even see their investments perish. The foolish animal that goes to cross the river alone is at the highest risk of becoming his predator’s lunch. The foolish investor, who gambles on his belief that he is the smartest and can get to the goodies ahead of the rest of the herd, is the most likely to end up road kill.

## An Anniversary to Remember

Do you remember where you were the day that President Kennedy was assassinated? I do, and I imagine that everyone who was born before 1953 does as well. Do you remember where you were, or what you were thinking two years ago on March 9, 2009? Does the date ring any bells for you?

It has been two years since the S&P 500 Index hit a low not seen since September, 1996! (source for all market stats:finance.google.com). It closed that

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day at 676 after falling 25% since the beginning of 2009. The global credit markets were still in freefall, our economy had shed millions of jobs since the “Great Recession” officially began in December, 2007, and no one saw anything other than a bleak future. Sir John Templeton, famous investor, philanthropist, and founder of the Templeton Funds, once said, “The time of maximum pessimism is the best time to buy...” But it is hard to know the time of maximum pessimism. Right after Lehman failed in September, 2008 the credit markets froze and the fear of an economic meltdown was pervasive, but the market fell 46% before bottoming on March 9<sup>th</sup>.

But memories fade, and with them fears. After hitting bottom on March 9<sup>th</sup> the S&P 500 rose 27%

in one month, and 63% by the end of 2009. Now, just two years later, the index is up 95%. According to the Bureau of Labor Statistics, unemployment rose by 5 million from the start of the recession in December, 2007 to the market bottom in 2009. It has risen another 900,000 since then, even as the stock market is up 95%!

The market’s meteoric (although not uninterrupted) rise over the past two years may be instructive, but not necessarily celebratory. People with equity exposure are happy to have seen that there has been recovery in their accounts. But life goes on, and the need to make money over time goes on for most of us. True to history, those who have remained diversified and invested have had reason to smile. But we should never fail to remember the past, and hopefully learn from it.

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**Gross Domestic Product (GDP) measures the total market value of all final goods and services produced in a country in a given year. Unless otherwise noted, market statistics and data used in this newsletter were obtained from [finance.google.com](http://finance.google.com), and interest rate information was derived from [www.treasurydirect.gov](http://www.treasurydirect.gov).**

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