ClearView Wealth Management

Investing with Clarity and Vision

Clarion Newsletter November 2012

Financial Stewardship

The inevitable is coming – again.
Bob Cannon

In the August issue of *The Clarion* we asked if you are prepared for the inevitable – the coming recession. Since we have had 13 recessions in the last 82 years, or one about every 6 years, it is reasonable to expect another recession is not too far around the corner.

We manage a lot of IRA and liquid, stock market-based assets for our clients. However, a small group of our clients self-manage their market-based portfolio, and some still utilize retail stock brokers and/or banks to manage their money in stock, bonds and mutual funds. This article is written to offer some guidance and assistance to clients whose funds we are not managing.

The best time to prepare for the next market downturn is well before the recession arrives. Please consider the following points to help you prepare your 401k or self-managed portfolio for the inevitable. If you are using another advisor to manage your IRAs or liquid stock market investments, these points will help you evaluate those investments as well.

1. **Remember – these are usually long-term investments requiring long-term strategies.** Most markets and world economies run in long cycles. Some of these cycles are considered positive or bull markets (post WWII to 1965 and 1982 to 2000). When the cycles are flat and/or negative periods, they are called bear markets (1966 to 1982 and 2000 to the present – and maybe beyond). Stocks do very well in the bull markets and it is important to be mostly in equities during these periods. Conversely, during bear markets, the portfolio should be mostly dividend paying stocks, bonds and cash.

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FIVE STAR PROFESSIONAL 2012 Wealth Manager

Bob Cannon has been selected as a recipient of the **2012 FIVE STAR** Award for Wealth Managers in the Seattle area for the second consecutive year.

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Be sure your portfolio is properly allocated during both bull and bear markets.

2. **Emotional decision making is not good for your portfolio.** We find that most clients who self manage their stock market investments often succumb to buying at the top of a "hot market" and selling out of fear near the bottom of the cycle. This process can cripple a market-based portfolio. Emotions are the enemy of any sound investment strategy. As Warren Buffet has often said, "be fearful when others are greedy and greedy when others are fearful"[1]. To avoid the pitfalls of emotional decision making, many investors have chosen index-based funds. Ask yourself this question, how have the indexes performed over the last 10 to 12 years? If you were invested in an index that tracks the Dow, the S&P 500 or NASDAQ, your investments would have performed about the same – flat!

3. **Don't chase the winners.** This is a big one and often based on emotion during a hot market. We all know that past performance is no guarantee of future results. Just ask the yield chasers who overbought subprime mortgage-backed securities how successful that strategy turned out. With the 10 year treasury still hovering around 1.5-1.7%, people who rely solely on market-based investments for their income tend to take too many risks chasing "hot stocks". Much of the time, the winners have already won!

4. **Keep an eye on the fees.** At ClearView, our asset management fees, all in, generally range between 1.5 to 1.85%. A few accounts can be a little more expensive depending upon the investments chosen by the client. It is common for many mutual fund or advisor fees to be between 2 and 3%. Some are higher. Retail stockbrokers can be even more expensive due to fees generated by the trading in your account. Hedge funds often charge 2 to 3%, plus another 20% of the profit. The difference between 1.5 to 1.85% and 2 to 3% fees to manage your money, compounded over many years, can add up to a substantial amount of money.

5. **Asset allocation and diversification are critical.** Even though all your money in your retirement plans and stock portfolio is committed solely to one asset class (stocks, bonds and mutual funds), it is still critical that the investments in your retirement funds be broadly allocated across a diverse mix of stocks and bonds. The critical importance of asset allocation and diversification has been repeatedly proven in academic and market studies over many, many years. Remember, even the most renowned retail stock pickers and traders lost a lot of value during the 2008 market crash. World economies and market forces are far more powerful than any individual's ability to pick stocks and time the market.

6. **Hire the best and let them do their job.** At ClearView we constantly review the market and the dozens of third-party money managers available to manage our clients' investments. We have selected a variety of strategies and asset managers to meet the diverse and unique needs, goals, investment horizons and risk tolerances of our clients. We monitor their performance,

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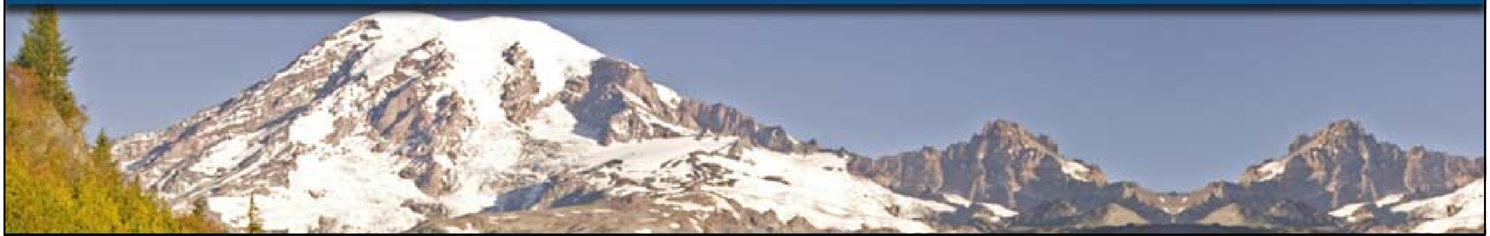

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communicate with our clients and make changes to the investments and/or strategies as required. But, we do not second guess their decision or try to "out manage" them. Unfortunately, we find too many clients who self manage or utilize retail brokers who often interject their own investment or trading strategies to the serious detriment of their net worth. That is why we try to use the best of class money managers for our clients' market-based investments, and let them do their job.

There is no one solution, strategy or asset manager that fits the needs of all investors. Please consider these points if you are self-managing your retirement funds, if you are currently using a retail broker or bank to manage your IRAs and/or liquid stock market investments, or if you are still working and contributing to your 401k. They will help you be a more effective steward of your money.

Are you now wondering how the historical performance of your 401k, IRA or brokerage account compares to the returns of ClearView's third-party money managers? It is free and easy to find out. All you have to do is give us a copy of your most recent account statement showing the long-term returns earned in your accounts and the exact funds in which you have been invested over the years. We will generate an "apples to apples" comparative analysis of your existing accounts and that of our third-party money managers. Obviously, we are pretty confident of the result.

You have worked hard for your money. How hard is your money really working for you? Let us help you find out. It is free, quick and easy. See for yourself what a difference it makes investing with clarity and vision through ClearView.

[1] *2004 letter to shareholders of Berkshire Hathaway*

"Offense Sells Tickets, Defense Wins Championships" — Bear Bryant

Leslie Cannon

Whether you are a sports fan or not, this quote can provide important considerations for managing your investment portfolio. If the value of your portfolio drops by 30%, you will need to gain 43% in order to break even. If the value drops by 50%, you will need to gain 100% to get back to your original value! Defensive portfolio management can help reduce losses and allow better long-term gains. The championship we are all playing for is our future and the stakes are high.

Defensive investing does not mean that all your assets are invested in blue chip stocks or government bonds – or that you are putting all your cash in a safe deposit box! It does mean that you are employing a variety of tools to minimize the risk of loss without sacrificing too much potential gain.

Diversification and asset allocation are key tools that can reduce volatility and limit losses. Spreading

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investments among different asset classes such as stocks, bonds, real estate and alternative investments can reduce the fluctuations or volatility of investment returns. Typically these asset classes do not all go up and down at the same time, which is why a well constructed portfolio can reduce risk of loss. This is a basic financial strategy and has been discussed previously in this newsletter and remains the centerpiece of any discussion of investment management.

Another tool which is widely used in managing stock/bond portfolios is *tactical management*. In contrast to strategic management, which is a buy and hold approach, *tactical management* is an active approach which responds to changes in market conditions. Allocations to specific asset classes may be increased or reduced depending upon the plan or model of the tactical manager. *Tactical management* attempts to reduce losses by getting out of positions which are at risk of loss and participate in gains by increasing investments in positions which are believed to be on an upswing. The portfolios are typically overseen by an investment committee, who monitor the models and adjust as necessary. Positions may be liquidated to cash or to a money market position on a weekly or monthly basis if the model dictates.

Historically, strategic management was the only game in town. The concept is to buy positions based on the perceived investment value (risk, reward, long-term potential, income, etc.), maintain the asset allocation, and rebalance periodically. Strategic management is still an important portfolio management approach -- Warren Buffet is one example of the value of this approach. Just as diversification and asset allocation is an appropriate and powerful tool in investment portfolios, incorporating tactical management as well as strategic management provides diversification to your portfolio management.

Tactical, active money management has increased in use for a number of reasons -- markets have become increasingly influenced by global economic conditions, hedge funds and computerized trading activity have increasing influence and impact on market values (e.g. flash crash of 2010), uncertainty about the short-term and long-term economic forecasts. The markets are becoming more and more complex. Active management attempts to utilize information and trends to reduce risk and optimize returns.

We have a variety of tactical managers available to our clients. We choose to use those who have reduced volatility/standard deviation compared to their benchmarks and have both effectively managed through the downturns and participated in the upside. This, in our view, is the definition of a successful defense. Call the office for an appointment in person or by phone to discuss how tactical asset management can help you preserve and grow your wealth.

Thought for the day

It takes a smart person to make money, but a genius to hold on to it.