

Nick Murray

INTERACTIVE

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To the Prospective Subscriber:

Nick Murray Interactive, now in its fourteenth year of publication, intends to intervene positively and meaningfully in the career of the personal financial advisor who is striving to build and maintain an exceptionally successful practice in the context of a deeply satisfying life, without ethical compromise and without significant stress.

NMI is comprised of two complementary resources:

- **An online newsletter**, eight pages in length, published on the last business day of each month. It contains essays on behavioral investment advice, practical economics, market perspectives, practice management and financial planning. Also featured are reviews of important books, articles, speeches and marketing resources. Most months, we offer a **Client's Corner** essay, which may be accessed in pdf format for direct transmission (via email or snail mail, but never on a website) to clients and prospects. Finally, we reprint (anonymously) selected Q&A exchanges between subscribers and your editor, pursuant to the second aspect of *NMI*'s mission:

- **A situational, or "spot coaching," clinic.** Subscribers may email me with specific issues they're dealing with in client relationships, economic/market conditions, practice management and objections handling. As time permits, I'll respond directly, usually within 48 hours.

Subscribers also have access to the entire archive of *NMI*, which currently contains nearly 1,400 pages of material. **They also have the exclusive opportunity to subscribe to my all-day intensive Behavioral Strategies Conferences**, two of which will take place in New York in 2014.

NMI takes as its particular mission to arm subscribers with reasoned rebuttals of the apocalypse *du jour*—the current-events situation/objection which is most distressing to clients at any given moment. Especially through the horrific volatility of recent years, I believe we were decisively effective in enabling subscribers to cause their clients to maintain their long-term perspective. (We invite you to read the testimonials to this on *NMI*'s home page.)

Today more than ever, I believe *NMI* contains the best work I've ever done. I love producing this resource for its growing roster of subscribers, and I'd welcome the opportunity to do so for you, too.

Nick Murray

What It Means To Be Countercultural

FROM 11/13 ISSUE

It is perhaps easy to suppose that at my Behavioral Strategies Conferences—the fifth of which took place on October 11—the attendees get more from me than I from them. In fact, nothing could be further from the truth.

Their greatest gift to me this year (even greater than the Godiva chocolate cigars and the lustiest rendition of "Happy Birthday" that I've heard in a good long time) was to cause me, in preparation for the event, to zero-base my most fundamental premises about our mission going forward.

As we fully (and finally) emerge from the once-in-a-generation existential financial crisis of recent years, the attendees and I found it useful to examine two things: what we had learned in the five years since the Lehman bankruptcy precipitated the crisis in full, and what the investment culture all around us had learned as well.

Suffice to say in summary that on balance we were reasonably content with the former and grimly philosophical concerning the latter.

It isn't necessary to labor in this space the conclusions we agreed on regarding what we learned (or more accurately what we were able to confirm)

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during the epic decline and the hugely powerful market surge—even against the backdrop of an agonizingly slow economic recovery—which followed. You will find those conclusions in the essay “We Told Them So, Two” in the August issue.

The point I wished to make—and now to reinforce, for all the subscribers who weren’t there—was that all that is yesterday’s news.

I took as my text the first four words spoken by Vincent T. Lombardi on the first day of training camp the summer after the Packers won the very first Super Bowl. Holding aloft the object to which he referred, that uniquely American genius said: **“This is a football.”**

In that perfect moment, all the team’s understandable euphoria about their achievement the previous January vanished utterly. Lombardi had put them back in touch with the fact that they were convened to an entirely new beginning—that not only hadn’t they accomplished anything in the new season but they should assume they knew nothing at all, and had to build their knowledge and power all over again from scratch. I don’t suppose I need remind you that they then went on to win the second Super Bowl, so I’ll simply venture my opinion that they began to win it in that very moment.

On a much more modest level, that’s the mindset I was trying to evoke.

Specifically, I wanted us to examine what the investment advisory profession at large might have learned from its experiences of the last five years, and what the investing public—if you will, the culture—had learned as well. In summary, we decided that the culture hadn’t learned much of anything at all, and that by and large the advisory profession continues to pander to the culture’s doomed idea that successful investing is primarily a function of timing and/or selection.

We decided, in other words, that this newsletter’s followers had not merely performed counterculturally in the crisis, but that we must now resign ourselves to being countercultural forever. In brief: **we are goal-focused and planning-driven**

investment advisors in a culture that will always be market-focused and performance-driven.

But—as Emerson’s essay “Compensation” promises us—there’s a glorious benefit which comes along with the constraint that we’re morally and ethically bound forever to row upstream directly against the current of the culture.

It is, of course, that our work will prove to be of literally immeasurable value to the fortunate few who accept it—who elect, perhaps against all their instincts, to believe us and not CNBC, us and not all the mutual fund performance advertising that quotes star ratings, us and not all the chimerical and pernicious offers of equity returns without equity volatility (see the accompanying essay).

From this conclusion we infer a vision of our core value proposition as investment advisors, rendered as a syllogism:

(A) In order to achieve their lifetime financial goals, our countrymen must have a cogent, coherent plan, or they must, soon or late, perish financially. The threshold question is never **how are we doing** but **where are we going**.

(B) Battered and brainwashed by the illusion of the primacy of selection and/or timing, they are unable to make—**and completely unable to stick to**—a plan without the constant guidance and timely intervention of the planner. **In this critically important sense, the messenger becomes the message.**

And therefore (C): The value of a goal-focused, planning-driven Behavioral Investment Counselor is an incalculable multiple of anything she’ll ever be able to charge for her advice.

All our strength to keep looking for the rare individual or household capable of perceiving this—and all our great professional joy in finding and helping them—comes from this hugely positive value proposition.

We are not responsible for how people react to the life-altering value we offer. Indeed, we know that when we let ourselves focus on outcomes (“How can

I get these people to say yes?”), all the lights start going out. We’re no longer focused on the quality of our work—over which we have exquisite control—but on someone’s response to it, over which the truth-teller can have none. And the quality of our work—which is a pure function of its unvarnished truthfulness—is the last thing on earth we must ever compromise. Because in the long run **the quality of our work is the driver of the quality of our lives.**

And after all, what is the point of our professional lives? I believe it’s a simple progression of three very fundamental goals:

(1) To do good.

(2) To do well by doing good.

(3) To be happy doing well by doing good.

The timing and selection culture runs on two essential theses, both of which we know to be untrue. (1) One of the two keys to investment success is superior timing of entrances into and exits from the markets altogether, and/or the consistently opportune timing of movements among sectors, styles and asset classes. (2) The other key is the selection of investments which will consistently outperform the great preponderance of other, similar investments.

The culture—in the form of mayfly-perspective, catastrophist financial journalism and the performance-advertising product providers who sponsor it—does not merely support these theses, but reinforces them relentlessly all day, every day.

We, the countercultural few, hold not only that these goals can never consistently be achieved by anyone—which would surely be bad enough—but that by encouraging people to pursue them the culture knowingly distracts investors from the critical need to make and abide by a plan.

Thus, the tragedy of performance-chasing must continue to consume huge swaths of investor wealth—wealth that could almost effortlessly have been husbanded and grown toward any

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We Told Them So, Two

FROM 8/13 ISSUE

In the very first newsletter essay written in the new year (“We Told Them So,” February 2013), we exulted in all of the accelerating financial and economic positives—S&P 1,500 only the most obvious of them—which, as this newsletter had consistently assured its readers throughout the previous five years, must and surely would ultimately triumph.

Six glorious months later almost to the day, even at the perfectly acceptable risk of piling on, it does not seem untoward to update the litany of positive outcomes enumerated in the earlier essay—indeed, to expand it—and to encourage our readers to absorb its larger truth. (Nor would you be ill-advised to stop right here and review the earlier piece before reading on. At the very least, do read them in tandem at some point.)

Once again, the most obvious manifestation of the recovery’s still-gathering power is the equity market itself, deep into new high ground near S&P 1,700—up over 18% in seven months, even ignoring dividends. (And even after a six percent correction in the interim, which journalism predictably hailed as the long-overdue end of the “rally.”) We told them so—though even we would not have dared to expect this much validation this quickly.

The 10-year Treasury bond during the same period produced a negative return—as we assured them that at some point it would, and will. It is no longer just opportunity cost which an investor suffers by holding bonds: as the owner continues to gain, the loaner has begun to lose.

Earnings have kept on growing, albeit at a decelerating rate, as we said they would. In the absence of robust top-line revenue growth, and with all the meaningful cost savings long since wrung out, companies yet managed to set an earnings record in the first quarter, and are on track to have done so again in the second. Whence, then, comes the market’s dynamism? As we told them it would, from the modest expansion of P/E multiples which is characteristic of this phase of the cycle.

Dividends, meanwhile—as we said they must—have simply exploded. Again, one need not have been any sort of clairvoyant to see this coming: with companies’ cash hoards at record levels, and with a payout ratio on the S&P down around 30% at year-end 2012 versus a historical average of 53%, a sharp rise in dividends was a “when” and never an “if.” It’s clear now that total dividends from the S&P 500 companies will blow right through the previous (2008) record of \$248 billion—and still be only about 36% of earnings. (Share repurchases have also been running at record levels, and to very good effect, as the S&P 500 Buyback Index has significantly outperformed the overall Index through midyear.)

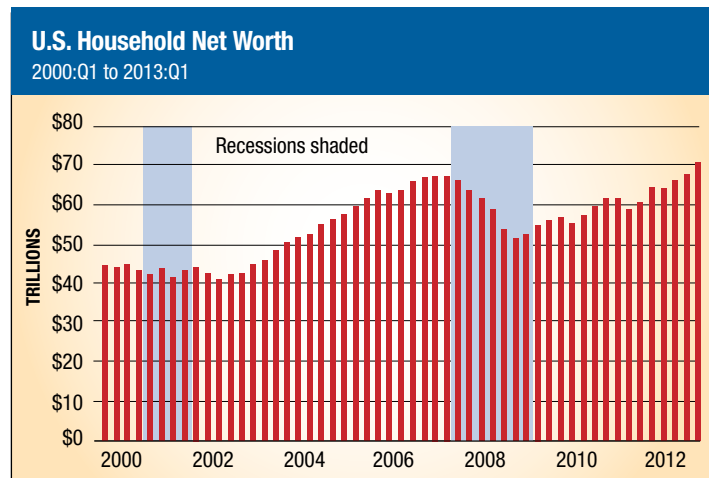
With a terrible vengeance—the second quarter was its worst since Nixon abandoned the gold standard in 1971, if not of

all time—that inert and unproductive metal has re-emerged as the genuinely dreadful long-term investment it has always been. On the last trading day of the quarter, as the world suddenly snapped out of its denial that the hyperinflation ship had sailed, gold—which no manager could be caught dead owning on his quarterly investor report—momentarily breached \$1,200. At that price, this much-vaunted inflation hedge had—since its last bubble top in 1980—lost half its real value. Yet again, although we told them so in general terms, the reality has been beyond our wildest expectations. (Allow your editor a personal moment here freely to confess that he—the most verbal and even voluble of men—has simply no words to express how happy this has made him.)

Meanwhile, the financial position of the American household—perennially described by mainstream media as desperately cash-strapped—has improved to all-time record levels, by the two most critical standards. First, at the end of the first quarter (and having undoubtedly surged ahead even further in the second), household net worth broke into new high ground at \$70.35 **trillion**, or very nearly 10% more than it had been just a year earlier. The value of real estate owned by households was \$18.45 trillion of this total, up 11.2% in a year; holdings of equities and mutual funds, at \$17.02 trillion, were up 14%. Overall, not only have households gained back the entirety of the \$16 trillion they lost in the Great Recession, but they are now \$3 trillion ahead of the pre-recession peak in 2007.

Second, the household debt-service ratio—the relationship of debt payments to disposable personal income—crashed in the first quarter to 10.38%. This ratio, which takes into account outstanding mortgages and consumer debt of all kinds, fell to its lowest level since the Federal Reserve began calculating this series in 1960. Thus, the American household has not merely worked off all the

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Ask Nick

FROM 2/14 ISSUE

Q Been a believing, practicing subscriber for years, give *Simple Wealth* away like some advisors give out business cards, incorporated the principles in *BIC* (which I read three times) into my investment policy statements, rarely make portfolio changes. Rebalance every year on the same day; call and see clients regularly; prospect religiously.

And then it happened. In late 2012 I decided that the market had come too far too fast, and began withholding new cash pending the correction I was absolutely and even scientifically sure was coming. More than a year later, here I am with something just under 15% of my book in cash. Most notably took in a major new account last Spring; have repeatedly urged him to stay in cash, and the situation feels like it's about to turn ugly. I'm losing sleep, my stress levels are off the charts, and I feel something I've never felt before: that I harmed my clients. I'm now frozen: incapable of acting—incapable even of reaching a decision. What ought I to say and do?

A First of all, you're overreacting. What you did was horrifically wrong, and totally incomprehensible in a major consumer of my work, but you only did it to less than 15% of your book. Put this in perspective. Thereafter, the only thing I can recommend—because it's the only rational and moral course open to you—is to go to this distinct minority of your book and tell it the radiant, unadorned truth: that you were wrong ever to try to time the market, that you are heartily sorry, that you will never do it again, and that you want to sit down with them and start over, with a goal-focused, needs-driven portfolio approach rather than one based on a view of the market. (You may lose some accounts, but I doubt you can be successfully sued for being wrong about the market.) Then go in peace, and sin no more.

I've always said that people of our personality type do not learn academically, but only experientially. Despite everything I've counseled, and despite your own sincere enthusiasm for my work, you had to go out and learn this lesson from bitter

Two Great Complementary Truths

“Temperament is more important than IQ.”

—Warren Buffett, quoted in *Fortune*, November 2013

“Point of view is worth 80 IQ points.”

—Alan Kay, pioneer computer scientist

experience. But now you've learned it for all time, and you will use this lesson to save people tens of millions of dollars in the future, by adjuring them not to make the same mistake. As Napoleon Hill always said, every disaster carries with it the seed of an equivalent or greater benefit.

FROM 10/12 ISSUE

Q No matter what goes wrong in the world, you are always bullish. Are you at all open-minded about this? Specifically, what would it take to make you bearish?

A First of all, I'd never get bearish when things are going bad, because bad things make stocks get cheap, and the cheaper they get, the more bullish I am. I guess that's a way of saying: I could never be long-term bearish, because long-term bearishness is a manifestation of mental illness. I might be moved to become intermediate-term bearish at some point, given a confluence of three factors: (a) the S&P 500 selling at 25x next year's consensus earnings estimate, (b) the VIX under 3, and (c) no gold ads on Fox News for 180 consecutive days. (I don't know that I'd sell anything, but I might start taking my dividends and capital gains in cash.)

Or You Could Just Shoot Yourself

“My advice to a prospective active do-it-yourself investor is to learn golf. You'll get a little exercise, some fresh air and time with your friends. Sure, greens fees can be steep, but not as steep as the hit your portfolio will take if you become an active do-it-yourself investor.”

—Terrance Odean, professor and chairman of the finance group at Haas School of Business, University of California, Berkeley

Learning To Love The Inevitable Correction

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FROM 2/14 ISSUE

“Will record high stocks withstand plunging expectations?”

That was the headline on my financial website of choice when I fired up my computer one morning in January. And even I had to appreciate it, as an exemplar of its genre: financial journalism's unique ability (never mind willingness) to juxtapose two untruths, and to distill from them a wonderfully silly and ultimately unanswerable question—hoping thereby to scare you out of the market.

(For the record, the two relevant truths are (a) that relative to earnings and dividends, equities are nowhere close to their highs of 1999-2000, and (b) that earnings growth expectations, while clearly moderating, aren't doing anything like “plunging.” Earnings are in point of fact setting new records, and the consensus forecast is for them to do so again in 2014.)

But this headline does, in its own singularly unhelpful way, raise a question that seems to be on a lot of people's minds these days. To wit, after its history-making run—the S&P is more than two and a half times its panic lows of March 2009—isn't the market due for some sort of correction? And ought not an investor to sell out now, and wait for said correction?

So as not to keep you in suspense, and always trying to be as helpful as I can, let me answer the question categorically: yes, somewhere in the indeterminate future there is going to be a correction worthy of

the name—because there always is. Corrections—defined by most professional investors as declines of between 10% and 20%—are as common as dirt, and come along as regularly as does the crosstown bus. (Since 1980, in fact, the *average* intra-year decline in the S&P 500 has been 14.4%.) The problem is that no one knows where a correction will start, nor where it will end—corrections cannot consistently be timed by anyone—and therefore you aren't going to be able to trade the next one successfully. That is, you are not going to get better results by trying to time a correction than you would have if you just rode it out.

Nor should you try. (a) You're going to miss the top; you'll either get out too soon or too late. (b) You're then going to miss the bottom; you'll either get back in too soon, too late, or—heaven forbid—not at all, because while you waited for the market to make new correction lows, it inevitably turned around and resumed its long-term uptrend into new high ground, leaving you paralyzed on the dock, hoping against hope that a ship that's long since sailed will come back to get you. It won't.

Wait, it gets worse: (c) when you sell, inevitably mistiming the top, you'll trigger current taxation, as well as two rounds of transaction costs you'll pay to sell and then to buy back in again—which you will also mistime.

Trading the “inevitable” correction is thus in every sense analogous to Aesop's fable of belling the cat. You'll remember that in this

story a convocation of mice, whose ranks were being decimated by a cat, voted unanimously to tie a bell around said cat's neck so that they could hear it coming and hide themselves. This eminently logical resolution foundered almost immediately on the issue of which mouse was to do the tying.

Even I would admit that it is virtually intuitive to wish to preserve one's gains in a market that has risen dramatically, to avoid even a temporary setback of potentially significant proportions, and then to buy one's portfolio back at importantly lower prices as the long-term advance of equity values resumes. Intuitive, yes, and quite impossible. No mouse (or team of mice) is going to get that bell tied around the cat's neck. And you're not going to improve your portfolio's long-term return by trading a correction. Indeed, you'll be lucky if you don't blow that return to smithereens.

So what ought the rational investor to do about a correction? I think we all have two reasonable choices. One is simply to ignore it; the other is actively to enjoy it.

Particularly if you are still in the accumulation phase of your investing career—or are simply reinvesting your dividends—then presumably you will have the plain common sense to greet a correction not as a victim but as an opportunist. For while the (temporary) correction lasts, you're going to be adding to your holdings (and/or reinvesting your dividends) at sale prices. Indeed, if it helps, be

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Resources

FROM 2/14 ISSUE

1 As indicated elsewhere in this newsletter, the long-awaited fifth edition of Jeremy Siegel's *Stocks for the Long Run* has been published. It is an inexpressible treasure—not merely a must-read book of the year, but a book for your career. I guess I'd all but forgotten the powerful effect on my thinking the first edition of the book had twenty years ago. So finding all that clarity and power again—now enhanced by, among other things, a dispassionate and quite complete analysis of the world financial crisis of 2007-09—has been a peak experience for me, as it surely will be for you.

The book's central thesis, proven yet again beyond reasonable doubt, is that equities are by far the safest financial asset class—that is, the most reliable at preserving and enhancing real purchasing power over time. (Dr. Siegel's findings with respect to the real volatility of bonds will also be quite an eye-opener for many readers, and most timely as bonds come off the bottom of the three-decade Mother of All Interest Rate Cycles.) Run, don't walk to *Stocks for the Long Run*, and give it the time and focus it deserves. This isn't something to be listened to in the car while you're driving. It is gospel, in the dictionary's fourth definition of that word: something regarded as true and implicitly believed.

FROM 1/14 ISSUE

2 Charter subscriber, fellow oil geek and good friend Mike Harvey brought to my attention a new book called *The Frackers: the Outra-*

geous Inside Story of the New Billionaire Wildcatters by *The Wall Street Journal's* Gregory Zuckerman, who previously wrote a book-length account of John Paulson's epic subprime short. *Frackers* is essentially a series of parallel lives; it recounts the work of pioneers George Mitchell, Aubrey McClendon, Harold Hamm (who I suspect reminds Mike of himself) and others in the second greatest economic revolution of our time after the Internet: the return of the United States to primacy in the production of oil and gas through the twin technological breakthroughs of horizontal drilling and hydraulic fracturing.

Jeremy Siegel's *Stocks for the Long Run*
is an inexpressible treasure—
not merely a must-read book of the year,
but a book for your career.

Frackers is the most complete account of this revolution that we are likely to get for a while. That said, it is a book meant for the widest possible public audience (not just oil geeks) and is therefore perhaps a little lighter on geology and engineering than you and I might have preferred. (It is by the same token heavier on odd analogies meant to pass for clarification, such as when the three sedimentary layers of the Bakken shale are likened to an Oreo cookie.) Mr. Zuckerman is a journalist whose writing may most charitably be characterized as workmanlike,

except where it occasionally becomes turgid (brace yourself for page 151, on which a form of the verb “to discuss” appears in three of four consecutive sentences). Nonetheless, *Frackers* is a very worthwhile account of both an historic technological triumph and—with respect to all the natural gas it suddenly produced—an especially vicious commodity cycle.

FROM 10/13 ISSUE

3 Loring Ward has posted on its website and on YouTube a wonderful three-minute video tracking the growth of a dollar invested in equities in 1927—to very nearly \$3,000—juxtaposed

with *Time* magazine covers throughout this period. It's a classic—the best, most economical and ultimately most devastating illustration we may ever see of the irrelevance of “current events” to successful long-term equity investing. I should think you'd want to send it to the whole world, and certainly to lead off your seminars and/or client events with it. Indeed, it and Hans Rosling's 200 countries/200 years video probably sum, in a lot less than ten minutes, to the most powerful case for our long-term optimism that we could possibly make.

“Every generation has perceived the limits to growth that finite resources and undesirable side effects would pose if no new recipes or ideas were discovered. And every generation has underestimated the potential for finding new recipes and ideas. We consistently fail to grasp how many ideas remain to be discovered.”

—Paul Romer

We Told Them So, Two CONTINUED FROM PAGE 3

excessive mortgage and credit card debt it took on prior to the housing collapse in 2007 and thereafter, but it has—through a combination of debt repayment and increased income—liquefied its balance sheet as never before in the past half century. Catastrophist caterwauling to the effect that higher tax rates and/or the dreaded sequester would vacuum up all of the consumer's purchasing power seems to have missed this critically important positive, but then it always does.

Finally, over the last several months, we have repeatedly insisted that the Fed's quantitative easing had become irrelevant at best (because nearly all the excess liquidity was ending up as banks' totally inert excess reserves) and counterproductive at worst (in that by portraying an economy on life support, it could only sap consumer/investor confidence). More to the point of the recent hysteria concerning a total market collapse upon the tapering off of QE, we argued (a) that tapering would occur only when it was blatantly obvious even to a central banker that the economy could stand (nay, run) on its own, and (b) that long before there was even a hint of tapering, both the stock and bond markets would have discounted it.

Given these convictions, it is a matter of the most delicious irony to us that before there was so much as a tapering cloud in the sky, the yield on the 10-year Treasury all but doubled its 2012 lows, and that when Helicopter Ben actually did speak about the possibility of tapering this year, the equity

market leapt into new high ground.

At the beginning of this essay, we spoke of inviting you to absorb not merely the facts it presents but its larger truth for our subscribers. The facts demonstrate that we were right, as long-term optimists always are, and that the pessimists were wrong—as they always are. What we choose to characterize as the larger truth is that you elected, either through intellectual rigor or simply a leap of faith, to rely on this newsletter for these five years past, when observers able and willing to look across the valley were in extremely short supply. Please know that we felt the weight of that obligation every day.

You'll have long since noticed that "on the other hand" is not spoken here. We can be accused of a lot of things, but "nuanced" isn't one of them. Once the Great Panic—which *I hasten to acknowledge we did not see coming*—enveloped the world in September 2008, we became screaming, table-pounding, frothing-at-the-mouth bullish. We insisted, as always, that we did not know when, where, how or why this existential global seizure would end—but only *that* it would end. And that when it did, the Great Companies in America and the world would be selling at prices that would never be seen again.

From that panic bottom right through the present moment, we have steadfastly maintained that companies were doing spectacularly right everything that governments were (and are) doing so egregiously wrong, and that equity values would there-

fore not follow economic recovery but lead it. We adjured you therefore to base your investment policy on the companies rather than the countries, and have been vindicated not merely beyond our expectation but beyond our imagination.

We felt, finally, that that was what you had hired us to do: amid the information overload, the mayfly perspective and the apocalyptic pessimism—which were and will always be constants in your professional life—to provide you with reason, historical perspective, and the long-term optimism that is, after all, the only long-term realism.

Tomorrow is another day, of course. And years from now, when this great bull market cyclically tops out—having run longer and higher than almost anyone can currently imagine—we'll probably miss that one, too. (Unless by that time we're already sitting on a cloud somewhere, learning to play the long version of "Stairway to Heaven" on the harp.)

At times during the last five years, this newsletter's valiant subscribers must have felt like the three hundred Spartans at Thermopylae: heroes fighting a good fight for the ages, but soon to be hewn down by an overwhelming enemy.

I salute you, and remind you: we won. The battle we fought together these five years past was not physical, financial nor intellectual so much as it was a moral one, inasmuch as free-market capitalism is itself a moral imperative. And in moral battles, *the good guys—we good guys—always win.*

Client's Corner CONTINUED FROM PAGE 5

invited to think of a correction as a sort of January white sale on the Great Companies in America and the World.

I can think of few things more irrational than an accumulator—a person who may need to buy equities for years to come in order to fund his retirement goals—wanting the market to go up. This is the equivalent of going to the supermarket, buying three cans of tuna fish for \$10, and hoping

that when you return next week, your \$10 will only buy two cans. For an accumulator, in fact, the only thing better than a correction is a howling bear market. But, sadly, you can't often get those.

The last word on corrections was spoken by the superstar mutual fund manager of the 1980s and '90s, Peter Lynch: "Far more money has been lost by investors preparing for corrections, or trying to anticipate correc-

tions, than has been lost in the corrections themselves." To evoke Aesop again: you have my permission—nay, my active encouragement, and almost certainly that of your financial advisor—to assume that it will be the tortoise of the buy and hold equity investor who comes out ahead of the hare of the correction timer. And with much less stress.

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What It Means To Be Countercultural CONTINUED FROM PAGE 2

rational goal even at index equity returns.

Thus, the tragedy of fleeing equities in temporarily declining markets and then impulsively stampeding back in late in the next phase of the permanent advance continues to be America's default equity strategy. People still seem not to see, even after the experience of the last five years, that ***the more often one goes in and out of the market, the further below the index return one's personal experience falls.***

We, the countercultural few, therefore renew our commitment to a small number of immutable truths, which we hold to be dispositive of Americans' lifetime investment outcomes:

(1) Economic forecasting with any precision is not possible, nor need it even be attempted, inasmuch as ***the economy is uncorrelated to the markets over any but the longest time horizons.*** In short, the economy will never tell you what it's going to do, much less what the markets are going to do.

(2) The markets cannot consistently be

timed by anyone. Moreover, history confirms that all the equity market's sickening declines—none more wrenching, in our lifetimes, than that of October 2007 through March 2009—are temporary, and are inevitably followed by the resumption of the permanent uptrend in values. Given the choice of making lifetime investment policy based either on history or on chaos theory—the possibility that this time it's ***really*** different—we choose history.

(3) Given the permanence of the uptrend and both the temporariness and the randomness of the declines, we conclude that the most rational long-term equity investment strategy—distasteful, difficult and, yes, countercultural though it may be—is buy-and-hold. Churchill famously averred that democracy is the worst form of government ever developed by man, except for all the others. In just that sense, we say that buy-and-hold is the worst equity investment policy ever developed—***except for all the others.***

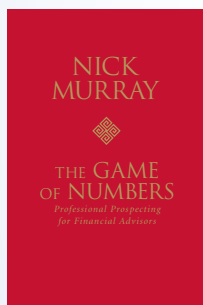
(4) We know ourselves to be possessed of three great capabilities, each of which is worth more than we can ever charge for it, and all three of which together comprise the positive value proposition referred to above. First, we can cause people to make a rational plan for the attainment of specific, dollar-denominated lifetime goals, and to fund that plan with investments whose historical rates of return would get them where they need to go. Second, we can provide them with the long-term historical perspective upon which sound long-term investing may and should be based. Third, and perhaps most important, we can—based on our own moral authority—prevent people from harming themselves irreparably through one or more iterations of The Big Mistake.

"This is a football." And these are the fundamental beliefs and behaviors to which we happily rededicated ourselves on October 11. We hope you will, too.

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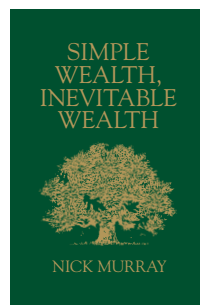
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