

Nick Murray

INTERACTIVE

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To the Prospective Subscriber:

Nick Murray Interactive, now beginning its thirteenth year of publication, intends to intervene positively and meaningfully in the career of a certain kind of personal financial advisor: the man or woman who strives to build and maintain an exceptionally successful practice in the context of a deeply satisfying life, without ethical compromise and without significant stress.

NMI actually takes the form of two separate but complementary resources:

- **An online newsletter, eight pages in length**, published on the last business day of each month. This contains essays on behavioral investment advice, practical economics, market perspectives, practice management and financial planning. Also featured are detailed recommendations of worthwhile books, articles, speeches and academic papers. **The newest feature of the newsletter is, most months, a “Client’s Corner” essay which may be accessed in pdf format and transmitted directly to clients (though not on any websites).** Finally, we reprint (anonymously) selected Q&A exchanges between subscribers and your editor, pursuant to the second aspect of this resource’s mission:

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

In addition to these two resources, subscribers have access to the entire archive of *NMI*, which now contains some 1,100 pages of material.

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 frightening to clients at any given time. ***Especially through the horrific volatility of the last five years, I believe we were decisively effective in helping subscribers—and thus their clients – to maintain their long-term perspective.***

More than ever, as 2013 begins, I believe *NMI* contains the best work I’ve ever done. I love producing this resource for its rapidly-growing roster of subscribers, and I’d welcome the opportunity to do so for you, too.

Nick Murray

The Best Source Of Income Is Growth

FROM 3/12 ISSUE

As the current zero-interest-rate environment grinds on, driven by an excessively accommodative Fed and the intense risk aversion of the world’s investors, one hears on every side—and I’m sure advisors experience daily—stories of people willing to do increasingly reckless things in order to capture “yield.” For there is no more enduring myth in investing than “safety and income.”

Almost half a century ago now, I heard the senior Raymond DeVoe say that more money had been lost by investors chasing yield than at the point of a gun. He could not have imagined the scale on which he would be proven right just a few years ago when the world went mad for AAA-rated real estate derivatives which proved to be utterly worthless.

And the madness continues today, as “investors” both lengthen maturities and come down in quality—the two things you would never, ever want to do at the bottom of an interest rate cycle, much less at the bottom of The Mother of All Interest

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Rate Cycles. For at zero, we completed in 2011 a thirty-year period in which bonds outperformed equities—an anomaly so freakish that it had not been seen since 1861, and will not be seen again in my grandchildren's lifetime, *if ever*.

For the record, and as a general statement, fixed income securities which afford the investor very meaningful assurance of the return of principal historically (though certainly not at the moment) offer a real yield of one to two percent after inflation, and of zero or less after inflation and taxes. Everything else is illusion. Real yield in bonds can only be achieved through the assumption of real risk. The “safe, high-yielding bond,” like the gryphon and the unicorn, is a chimera.

In addition to providing no real current return in terms of interest, bonds priced off a flattened yield curve that starts at zero are subject to significant—nay, horrific—market risk. When interest rates rise, as they inevitably must, the price of fixed income securities will fall, with the lower-quality, longer-term sectors—the things people are reaching for the most avidly—declining the most.

Interest rates will rise by virtue of a perfect storm, made up of [a] accelerating economic activity and concomitantly increasing loan demand, [b] rising investor confidence—or simply ameliorating investor terror—which must lead to disintermediation from debt into equity, [c] a resurgence of inflation, or simply reflation, and [d] a forced retreat by the Federal Reserve from the most protracted, most aggressive accommodative stance in the century of its existence. In his *Fortune* (February 27) piece, Buffett quotes the great investor (and aphorist) Shelby Cullom Davis: “Bonds promoted as offering risk-free returns are now priced to deliver return-free risk.”

It is critically important for advisors to realize that the investing public is totally unprepared intellectually and emotionally for this eventuality. You could be sixty years old today—having begun investing when you were thirty—and never in your investing lifetime have seen bond prices back up but twice. The first was in the middle six months of 1987, precipitating the Crash. And the other was the 1993–1994 Night of the Long Knives, when the Fed doubled the funds rate from 3% to 6% in twelve months. In both instances the thirty-year uptrend in bond prices quickly reasserted itself, to the point where you may

their purchasing power.)

The only valid test of an investment's long-term income-producing capacity is its long-term total return. Of course bonds “yield” more than equities, in terms of their current income: unless driven by falling interest rates, their values cannot rise, while equity values can not merely rise, but soar. Indeed, the current cash dividend of the S&P 500 is more than twice as much as the **total value** of the Index was when I was born in 1943. And the Index itself is up well over a hundred times. (Why? Because the earnings are up about a hundred times.) Meanwhile, a 69-year bond issued

The greatest—and by far the most reliable— source of investment income is growth.

retain no memory of these terrifying but temporary hiccups. (Bond prices also fell briefly in the Great Panic of 2008–2009, but everything else went down so much worse that one might never have noticed.) I therefore venture to say that the coming devastation in the prices of interest rate-sensitive securities must exceed the direct impact of rising rates, as the public always and everywhere overreacts.

The greatest—and by far the most reliable—source of investment income is growth. That is to say, equities are a far superior source of income—their dividend growth and appreciation potential unlimited—than are bonds, whose interest rates and ending value are generally fixed. (And not just fixed, but denominated in a secularly depreciating currency, such that—having enjoyed a nonexistent to negative real after-tax yield during the life of a bond—you are paid back your fixed principal in dollars which have meanwhile lost some significant percentage of

in 1943 at \$1,000 (had there been such an instrument) would be just about to mature at...you guessed it...\$1,000. (Give me five minutes, and—although it will admittedly be cherry-picking—I will name you ten stocks whose dividends are now higher than their prices were thirty years ago.)

Americans have grown up with many investing myths. One of the most pernicious (because misleading) of these myths is that there are only two basic investing goals—growth and income—and that these goals are antithetical. But people investing today for three-decade retirements—during which, at trendline inflation, the cost of living will rise two and a half times—must be brought by their advisors to the realization that there's really only one rational investment objective: the growth *of* income. Bonds by their very nature can never provide this. The great companies in America and the world, by their very nature, can do nothing *but* this.

It's as simple as that.



When Anglo-Saxons said that a single central bank and currency without a single state would be inherently unstable, they had a point.”

—Jacques Delors, a co-founder of the euro, in an interview with the London Daily Telegraph, December 2011

Whether Asked Or Not...

The Key Question Is The Moment Of Truth

FROM 7/12 ISSUE

An “Ask Nick” interaction elsewhere in this issue serves as a perfect bookend to one in June, in a way that invites our attention.

The issue last month revolved around a “client” couple with whom the advisor had met several times before they invested, but who bailed out at the first meaningless market setback. The advisor, by his own admission, had piled on argument after demonstration after example, never asking what was so obviously the one key question: “Can you just tell me, in your own words, what you’re most worried about?” In that way, and only in that way, he might have been able to speak directly to their deepest fears,

Everywhere in my work, for example—perhaps most proximately in the essay “Dread Is Not an Investment Policy”—one finds the point that you don’t get out of a falling market, if for no other reason than that you will not know when to get back in. The result will be that, having gotten out at the wrong time (and for the wrong reasons), you will then get back in wrong—usually much higher—and will thereby doom yourself to a lifetime of substandard returns. But when this subscriber is asked about the patent idiocy of stop loss orders, he can’t come up with something as simple, basic and intuitive as that answer.

It’s pretty clear that both my interlocu-

what I will characterize (and even capitalize) as The Key Question. Sometimes, as in this month’s example, the prospect will ask it. And if your empathetic heart is genuinely open—if you’re not sitting there obsessing about how you can convince them to do business with you—you will surely hear it, and know it for the central issue that it is.

At other times, it will be a question that the advisor comes to realize that she herself must have the courage to ask. Examples: “Can you put into words what you’re most afraid of?” Or, “What do you feel is the most important attribute in your relationship with a financial advisor?” Or, “Do you see that the only basis on which we can proceed is in a spirit of absolute mutual trust?” Or, “Do you completely see now that a substantial allocation to equities is historically the only way for you to achieve your goals?”

But whichever direction it goes in, The Key Question is always the moment of truth, and if you have any hope of excellence you must go into every interview determined to draw it out of the prospect or to ask it yourself. Then you must be prepared to stop the flow of whatever else you were doing in the interview, and focus on The Key Question with laser-like intensity, ***not going on until (a) you are perfectly satisfied that the issue has been well and truly put to rest in the prospect’s mind and heart, or (b) you understand that they will never get over whatever their problem is—at least not with you—and you graciously bow them out.***

The death of any nascent advisor/adviser relationship—including and especially the ones that were never going to work *ab initio*—is almost always in the unsaid: The Key Question Unasked (as in June) or Unanswered (as this month). It’s a mistake that real professionals, who are never afraid of running out of prospects/referrals/introductions—and, even more importantly, are never afraid of the truth—consciously and consistently refuse to make.

The supreme moment of truth in any interaction between an advisor and a potential client is The Key Question.

and to calm them—or to discover that they couldn’t be calmed, thereby saving himself a great deal of time, energy and grief.

In this month’s bookend item, the prospect himself—still, heaven help us, holding cash since the 2008 debacle—asks the key question: “You do use stop loss orders, don’t you?” And instead of answering the question in the only possible sane way (“No”), the advisor lays down a whole lot of obfuscatory covering fire about his “process” (whatever that’s supposed to mean), doesn’t answer, and now asks me how I would.

In a way, that’s my life: people subscribe to this resource year after year, professing to like and to gain from it, and then—at the critical moment—demonstrate that they haven’t really read it, didn’t understand it, or just don’t believe it. (Both ask, “What else would you tell them?” when it’s perfectly obvious that one wouldn’t tell them anything more, and in fact should have “told” them infinitely less.)

tors knew from the jump that neither of their “clients” was ever going to make it. But they plowed on, blathering about “process,” or the DALBAR/Lipper juxtaposition, or three principles/ three practices, hoping against hope never to have to come directly to grips with the only real issue, which was in both cases a perfect terror of equities. Nor were they capable, apparently, of simply asserting that the “clients” would have to trust them, and therefore their advice.

Talking when they should have been listening, making statements when they should have been asking more and better questions. Why did they do this? My default assumption, as always, is that they don’t prospect and don’t get enough referrals/introductions, such that this kind of dross is all that’s in their pipeline.

But I’m beginning to wander, here. The central message of this essay is that the supreme moment of truth in any interaction between an advisor and a potential client is



Ask Nick

FROM 10/12 ISSUE

Q I would like more direction on how to communicate my value as an advisor, on an ongoing basis, year after year, to clients. I have gifted several copies of *SWIW* over time, explained the importance of managing behavior, and your 3-part 1% answer is excellent, however I feel that it is not always sufficient for clients. In your newsletter a client who complains about fees

tion, “it is not always sufficient for clients.” This is quite incorrect. It is always—I repeat always—sufficient for people who are genuine clients—people who get you, and what you do, and are happy to have found you. It is insufficient for people who don’t really buy the behavioral value proposition, which is to say who don’t really buy you. This is the distinction you must learn to make. It is a matter of seeing things as they are, not as you hope they will be.

erat demonstrandum: nothing could be more tangible and measurable.

I don’t honestly know how a joyful, proud recitation of the immense value of planning/behavioral advice (such as that found in *BIC* pps. 127–129) could ever—other than in one’s own fearful imagination—sound defensive or condescending, much less both. You’re obviously a highly intelligent, ethical and committed behavioral investment counselor. I suggest that you insist gently but firmly on having those qualities recognized and acknowledged in the initial interview; otherwise, send the person on his way. I suggest further that you fire one fee carper this very day, and feel your self-esteem surge. It will make your weekend, and it may make your career.

I’d never get bearish when things go bad, because bad things make stocks get cheap, and the cheaper they get, the more bullish I am.

you term an ‘unprintable’, and counsel the FA to fire him forthwith; however you also tell the FA it is his own fault entirely. I was never clear on this point—is the FA’s mistake that he selected/accepted the wrong type of client to begin with, or that he didn’t communicate his value properly? Assuming we avoid the first, how do we consistently address the second? My challenge is that my value is often immeasurable and intangible. I know without doubt that I earn and am worth my fees, but I frankly still struggle with how to communicate this in a convincing manner without sounding defensive or condescending.

This brings me to your second paragraph, specifically the sentence that begins, “Assuming we avoid the first...” But you didn’t avoid the first, if you have a fee carper. You had every reason to know that such a person never bought you/the behavioral proposition in the first place, and yet you took him on. This is your fault. If you prospected more, and especially if you had the self-esteem to advocate very powerfully for the behavioral value proposition at the outset, you’d be qualifying people harder. Fee carping by a “client” (who is of course nothing of the kind) is always an indication that you failed.

Finally, to the statement that your value is “immeasurable and intangible:” in fact it is nothing of the kind. That’s what the three-part 1% question is designed to demonstrate: that the sum of what you do is invariably some multiple of 1%. There’s nothing even remotely intangible or immeasurable about it. If a “client” wanted to sell last September/October, and you talked him out of it, that has so far been worth about 30%. You charged 1%. **Quod**

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 I appreciate this thoughtful inquiry, and the spirit in which you express it. You appear to think the issue you’re raising is one of method or skill. I think it’s a self-esteem problem.

The last sentence of your first paragraph says that—after *SWIW*, reinforcement of the behavioral value proposition, and even recitation of the three-part 1% ques-

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.)

Uncertainty: The Only Certainty

[This essay is typical of the pieces I make available to newsletter subscribers most months, in pdf format, for direct transmittal to clients, though not in newsletters or any websites, which would open these essays up to the non-subscribing world. I retain the copyright, which must be cited. PLEASE NOTE THAT THE INCLUSION OF THIS ESSAY IN THIS SAMPLE ISSUE IS FOR ILLUSTRATIVE PURPOSES ONLY; NON-SUBSCRIBERS MAY NOT SEND IT ON TO ANYONE, WHICH WOULD CONSTITUTE COPYRIGHT INFRINGEMENT.]

FROM 9/12 ISSUE

I came to the investment advisory profession a beardless boy in 1967, so the presidential election which will take place in a few weeks will be my twelfth as a professional. In the run-up to each and every one, I've interacted with investors who said, "I have to liquidate my investments and get into cash because if (fill in the blank) gets (elected)(re-elected), the country will go to hell in a handbasket and the stock market will crash." I heard it on the Monday before my first Election Day in 1968 when the S&P 500 was 103. And by golly, wouldn't you know it? I heard it again this very morning, at S&P 1400.

And that was just this morning. This afternoon I heard the same song in a slightly different key: "Gotta get it all into cash before Taxmageddon engulfs us all. It's been on the news all day."

Election, fiscal cliff, a nuclear Iran, drought, Greece, Spain, subprime derivatives, terrorism, war—"all these uncertainties"—are the constant refrain to which we are exposed all day every day in the media. And if there's nothing going especially wrong on any given day, the media will go out and find some no-name "market strategist" who predicts that the equity market will go down 25% by Election Day. And they'll lead with that "story" all day.

So be it. The impulse to protect what we have is instinctive in us all, and the media live to terrorize us—to push the button of our aversion to uncertainty by trumpeting the current crop of known unknowns. That will never change, nor will we ever have any control over it. The only thing

we can control is the one thing we must control, and that is our own emotional response to the constant stream of negativity that's being beamed at us all the time.

In that regard, uncertainty is the only constant. The future, by its very nature, is rife with uncertainty. And as investors—who are deploying our capital for some future use—we must bear that uncertainty in our decision-making. I would therefore characterize successful investing neither as prediction nor as timing the market (things neither we nor anyone else can consistently do) but rather as the discipline of practicing **rationality under uncertainty**.

Uncertainty is the condition of observing something that may or may not happen, or whose outcome we don't yet know. Going completely to cash (and/or Treasury notes, and/or gold) because of one or more current economic/market uncertainties is actually a classic example of **irrationality** under uncertainty. That's because, in creating such a portfolio, one has responded to **uncertainty** by investing entirely in assets whose premise is the **certainty** of imminent economic and /or financial collapse. The irrationality lies in discounting the *possibility* of disaster (that is, the uncertainty of it) with a portfolio entirely based on the *certainty* of disaster.

Fear is not in and of itself irrational; indeed there are few if any of us who do not experience fear at moments when the markets are declining significantly amid shrill media catastrophism. But giving in to fear by abandoning one's long term retirement income strategy and adopting a disaster-certain portfolio

stance most certainly is irrational. This is the critical distinction. Note that the irrationality lies not in *feeling* the fear, but in totally surrendering to it.

Reasonable investors may differ as to their personal definitions of **rationality under uncertainty**. Mine is simply to let my lifetime portfolio strategy be dictated by the lessons of history. That is, I think the economy, and most particularly the fortunes of the great companies in America and the world, will tend over long periods of time to track something akin to the path of their progress in the past. More narrowly, I look for equity prices to continue to wax and wane around a rising trendline, which is what they've always done, as human nature cycles from too much euphoria to too much fear, and back again.

As jam-packed with multiple uncertainties as the current environment is, I note that corporate earnings and cash flows made new all-time highs in the quarter just past, and are still rising, albeit at a more subdued pace. I note further that companies' cash positions as a percentage of total corporate assets are at levels not seen since the Eisenhower era. I note finally that their dividends, which had been sharply reduced in the great panic of 2008–2009, have resumed their upward course, compounding since 1935 around 5.5% per year versus a 3% compound uptrend in the Consumer Price Index. I believe that in the long run it is these variables—and not the vagaries of the macroeconomy—to which equity values most consistently respond.

I don't minimize the uncertainties

which, as an equity investor, I will have to deal with for the rest of my life. I would, however, quietly point out that a good many of today's uncertainties—economic growth in the developing world, product engineering at the molecular level, 3D printing and America's emergence as the Saudi Arabia of natural gas—are huge potential positives, however uncertain the trajectory of their development may be.

Nor am I in the least sanguine about the volatility of equities, which history suggests will never go away. Since the end of WWII, the equity market has *annually* declined more than ten percent on average (the average intra-year pullback is actually 14%). It's declined at least 15% an average of once every three years. And it's declined at least 20% an average of once every five years. (The average decline in those bear markets is close to 30%, and the last one was a howling 57%.) I personally don't see a rational basis upon which to conclude that the future will be much different.

And yet, running upward through all that volatility, I believe I see a clearly discernible trend. The S&P stock index was earning about a dollar at the beginning of 1946; this year it'll be over \$100. The dividend was around seventy cents; this year it looks to be about \$29. The index itself was 18; right now it's around 1400. (The cost of living over this period is up about twelve and a half times, so you can get a real sense of how effective quality equities have been at preserving and enhancing purchasing power.) If I regard these long term trends as likely to continue—and I confess that I personally do—then I will take all of the volatility around them that I have to.

(By the way, if 1946 is too much ancient history for you—or if you just fear that numbers going back that far might somehow be apples and oranges—how about

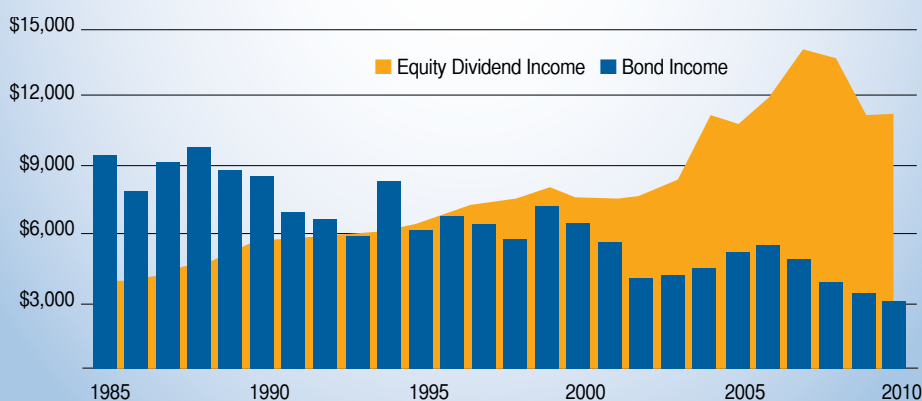
Equities: Now And Forever, The One True Source Of Income Growth

FROM 10/12 ISSUE

I'm grateful to longtime subscriber (and fellow Long Islander, albeit 60 miles away) Mike Meehan for this classic illustration of one of the central tenets of our philosophy: that in thirty years of a rising-cost retirement—even setting aside capital appreciation—it is dividend growth, and certainly not bond interest, which may (and must) be relied upon to sustain our clients' dignity and independence.

Note that the chart, which goes back a quarter century, assumes no compounding of income. As indeed it shouldn't, because in a real-world retirement we're spending our income, not reinvesting it. Note too that the chart's equity basis is the S&P 500, which has a whole lot of non-dividend-paying stocks in it. And still, equity income growth dwarfs the record of bond interest.

Income based on \$100,000 investment in the S&P 500 Index and Merrill Lynch Domestic Master Bond Index



Sources: Merrill Lynch, Standard & Poor's. Bond yield based on yield to maturity. Does not reflect reinvestment of dividends.

we just look back thirty years, to September 1982. Earnings were tracking at about \$14; the dividend was running just under \$7. The index was 122—a lot less than one tenth of where it is now. And since then the CPI is up about two and a half times.)

There's always a rebuttal to this line of reasoning—indeed, a whole bouquet of rebuttals (election, fiscal cliff, debt/deficit. Iran, Spain, gridlock, and so on)—but they all come down, in their essence, to four

words. Those are, in fact, the words which the legendary investor Sir John Templeton characterized as “among the four most dangerous words in investing.” They are, of course: “It's different this time.”

It might be, I suppose. But this isn't the first time anybody's said those four words. And history tells us that they haven't been right yet.

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“

Right now bonds should come with a warning label.”

— Warren Buffett, February 2012

Assume That Your Future Is Not In Your Book

FROM 6/12 ISSUE

As two of the three “Ask Nick” items this month demonstrate, when you’re not prospecting enough, and not getting enough referrals/introductions, you end up taking—and keeping far too long, in false hope—unsuitable accounts who will never support your move to the next level.

And I actually spared you further “Ask Nick” horror stories. Almost immediately after last month’s “No Partial Portfolios” piece, I got two unrelated but equally vexed emails from advisors who had taken on somebody’s 529 plans—knowing that the substance of the clients’ wealth was elsewhere—in the vain hope that their superior service would win them the balance of the accounts in the long run. In one case, when the advisor attempted to initiate this discussion, the “client” simply stopped returning his calls. In the other, the “client” acknowledged quite candidly (via email) that the advisor’s firm just seemed like a cheap place to park the kids’ 529s, and that he had absolutely no interest in any further discussion.

Why do advisors—even this newsletter’s subscribers—continue to put themselves in these kinds of situations? That’s obvious: because any pipe dream is better than the rigors of genuine prospecting. I suggest you spend the next twelve months disenthraling yourself. Assume that your future is not in your book, because it probably isn’t. After five years of horrific volatility, and the “client” exhaustion resulting from this terribly stressful period, assume that your book is fairly well cooked. (And the fewer referrals/

introductions you’re getting, the more cooked it is.)

What would I do? Well, armed with the two inarguable truths that (1) only equities will support thirty-year retirements and (2) equities will probably never be more undervalued relative to bonds in the baby boomers’ remaining lifetimes than they are now, I’d be out there telling that story to anyone and everyone who would listen. Note that I said telling, not selling.

Telling is simply announcing profound, life-affirming truth to the world, relying on the law of large numbers, letting the chips fall where they may, and going on your merry way with a song in your heart and a becoming smile on your lips. Selling is trying to convince somebody of something, so they’ll do what you want them to do. (You may wish to look at Matthew 13: 1 - 23 if this distinction isn’t intuitively clear.) Of course a lot of people are going to say no—such is the pandemic aversion to equities abroad in the land at the moment.

But as you are vindicated—as equities rise and bonds fall, *however long it takes for this to happen*—people will remember the one lonely, brave voice that was passionate about equities. Johnny Appleseed left apple seeds; the Lone Ranger left silver bullets. Leave your card with everyone who says no—having written that day’s S&P level boldly on the back.

Then, every month, go through that entire growing list, repeating your story. All in heaven’s time—not yours or mine—people will remember. And then you’ll get the fair and even respectful hearing you deserve. This—and not somehow winning the lottery in your current book—is where your real future lies.

Resources

FROM 10/12 ISSUE

1 Paul Volcker is a great hero of mine; he’s the Fed chairman who, virtually alone and under terrible pressure to relent, broke the back of the hyperinflation of 1979–1982, then all but forced Congress into adopting a balanced budget initiative, and thereby ushered in the prosperity of the 1980s and 1990s. Like his father and namesake, Volcker was a true public servant—his family’s financial struggles during his Fed chairman-

ship were quite terrible—but as much as or more than any one person (including Ronald Reagan), he set the stage for the greatest bull market of all time.

Thus I’m delighted to report that he has finally gotten the biography that he deserves, and that we advisors need. It’s *Volcker: The Triumph of Persistence* by William L. Silber. Silber is a professor and scholar at the Stern School of NYU, and he labored over this book for the better part of five years. The result is a financial

perhaps more than a personal biography; it ends up being an immensely lucid and readable monetary history of the United States, from the breakup of the Bretton Woods formula through Nixon’s closing the gold window to the slowly gathering but ultimately horrific inflation that ensued—to Volcker emerging as Horatius at the bridge.

It may seem impossible to today’s advisors that well within the lives of their older clients (and colleagues), the world

operated on a system of fixed exchange rates, anchored by an American dollar that was convertible into gold at a fixed price. The crackup of that system becomes in effect the education of Paul Volcker, and as we watch him struggle to master the uncharted territory that follows, we can get our own extremely practical and useful monetary education. This is a splendid book, written by a scholar who loves, understands and honors Volcker, and who invested five years so that posterity might fully appreciate the significance of his achievement. An absolute must-read.

FROM 4/12 ISSUE

2 One of the most important books I've read in quite a while, and a must-read for every advisor, is Jim O'Neill's *The Growth Map*. Jim is the originator and codifier of the concept of the BRICs—the four countries whom he identified ten years ago (Brazil, Russia, India and China) as potential engines of a vast new wave of global growth and prosperity. When he and his colleagues did this work, the subse-

quent success of the BRICs, and its effect on the global economy, were highly speculative and very much open to question. Yet in every case, the reality has exceeded Jim's original projections.

He invites us, in this new book, to consider the maturing of the BRICs as well as the possibilities inherent in what he calls the Next Eleven, led by South Korea, Mexico and Turkey, with Indonesia and the Philippines in a second tier. But beyond that, he suggests that we re-think our whole notion of "emerging markets," preferring to characterize them as new growth markets, and to look at their emergence not just as low-cost producers/exporters but as massive new consumer markets, with huge implications for global trade and investment.

This book has certainly caused me to look at this issue, as it impacts my own long-term portfolio composition, in a different and (I hope) more nuanced way. And it's introduced me to an unaffected, down-to-earth, delightful guy—a fellow one would really like to know. I can't recommend this very accessible treatment too highly.

FROM 10/12 ISSUE

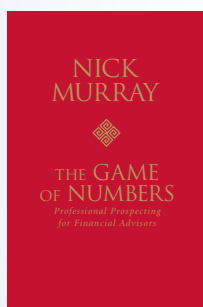
3 At this moment of the apotheosis of Apple—when investors have started asking themselves why they ever owned anything other than that one stock—you'll do people a favor by sending them Bill Frezza's brief but very acute essay "Polaroid, Kodak, Apple: No One Escapes the Winds of Creative Destruction" on Forbes.com.

FROM 9/12 ISSUE

4 Burton Malkiel's August 14 WSJ op-ed, "Even Amid the Current Turmoil, Stocks Still Beat Bonds," should be put in the hands of every client, prospect and suspect you've got. This is exactly the conversation you should be having with everyone you encounter for the next four months, anyway. Malkiel, author of the classic *A Random Walk Down Wall Street*, concludes, "The only hope—both for individuals and for institutions running retirement portfolios—is to increase, not decrease, the share of the portfolio devoted to equities."

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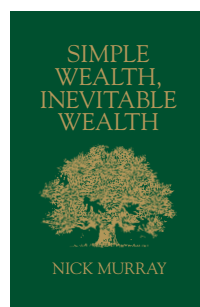
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