

Nick Murray

INTERACTIVE

VOLUME X • ISSUE X • 2011

To the Prospective Subscriber:

Nick Murray Interactive, now in its eleventh 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 nearly 600 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 worst months of the 2008-09 event, I believe we were decisively effective in helping subscribers—and thus their clients – to maintain their long-term perspective.***

More than ever, as 2011 progresses, 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

Dread Is Not An Investment Policy

FROM 4/11 ISSUE

Perhaps the most important thing we can teach our clients as we take them aboard our Ark is that there is a critical difference between having an investment philosophy and having a market outlook. All successful investors—and heaven knows all successful advisors—work from a philosophy rather than an outlook. All unsuccessful advisors and investors work from a market outlook, which is what ultimately renders them into manic/depressive paupers.

The challenge to advisors seeking to establish and maintain such a practice is that they are forced to create, in the minds of their clients, a whole new system of reality, because the entire world—not to mention their own terrible instincts—conspires to make investors believe that the essential question in investing isn’t “What are your goals?” but “What is the market going to do?”

But even clients who have been taught this critical distinction, and who claim to have accepted it when the sun is shining, will default to their old system of thought in, and indeed

CONTINUED ON NEXT PAGE

even long after, a significant market decline. This helps to explain why equity mutual funds remained in net liquidation more than a year and a half after the market trough of March 2009: the fear of Armageddon remained so paralyzing that people were sure that fresh disasters would soon overwhelm the market again, and they were just relieved to be able to get out on an uptick.

Fear remains, I think, the dominant presenting emotion in many or most of our client/prospect interactions, and I would admonish you to welcome this regardless of how vexing it can be: if they have to be jabbering about something, I would far rather it be dread than performance mania. And the fact that the preponderant emotion is still fear can only mean that the great bull market which began two years ago has much, much further to go.

But on the ground, as it were, the advisor must still deal with unfocused dread as it serially alights, and momentarily focuses on, the chosen terror of the day, be it the China crisis, the euro crisis, the Japanese nuclear crisis, the dollar crisis, the inflation crisis, the deflation crisis, or—when absolutely nothing else seems to be going wrong on the planet—a new-strain-of-flu crisis (always ephemeral, but always useful in an apocalypse-starved pinch).

I've developed at some length the policy that the way an advisor responds to crisis is essentially by refusing to respond to it (see especially "Thou Shalt Not Read, Neither Shalt Thou Rebut," in the April 2010 issue), and I certainly stand on that statement. But today I'd like to go upstream from the theory and practice of crisis non-response to the philosophical underpinnings of that approach. I do this partially because I've lately had a spate of "Ask Nicks" which suggest that the message of "Thou Shalt Not" hadn't quite become permanently ingrained in some readers. (I will mercifully spare you the texts.) But I also do it because this just feels to me like a moment to pull together and restate the

fundamental philosophy, as follows:

1. The only sane definition of "money" in the long run is "purchasing power." The "safety" of an asset class should therefore be measured by the lifetime/multigenerational investor in terms of the extent to which it defends purchasing power.

2. Equities have a peerless long-term record of preserving and enhancing purchasing power, far superior to that of bonds. The Ibbotson/Morningstar findings are that since 1926, an equal mix of large- and small-company equities compounded at nearly 11%, while high quality corporate bonds compounded at just less than 6%. Net of 3% inflation, the blended equity portfolio produced a real return more than two and one half times that of bonds. When one factors in taxation (immediately and at ordinary income tax rates on bonds interest, postponed until sale and at capital gains rates on equity appreciation), the real return gap widens even further in favor of equities. Hence, in terms of building and preserving real wealth over time, **equities are safer than bonds.**

3. The premium returns of equities can be purchased, in an efficient market, only by one's willingness to accept equities' incremental volatility. Fortunately, the premium returns abide, while the volatility evanesces. There have been thirteen bear markets since the end of WWII, averaging a 30% peak-to-trough decline. The market's peak just before the first one was 19 on the S&P. Thirteen ends of the world later—and still far below its all-time peak—the Index stands at 1300. Even thirty years ago—before six bear markets including the Crash of 1987 and the monster bears of 2000–2002 and 2007–2009—the S&P was about 135, about one tenth of its current value.

4. Unfortunately, the declines cannot consistently be predicted, much less "timed." Thus, the only way one can be sure to capture all of equities' permanent return is to ride out all of equities' tem-

porary volatility. (That said, significant declines are always an opportunity for the patient accumulator of equities to enhance his lifetime return by acquiring disproportionately large numbers of bargain-priced shares.) As demanding and strenuous as buy-and-hold must surely be at times, it remains the only way to be sure of getting the full permanent returns of equities.

• • •

If we start, as advisors, with this bed-rock philosophy, we can turn all dread—focused or unfocused—aside. The simple fact is that **dread can never be an investment policy, because the action dictated by dread—fleeing the market—can never be a valid investment strategy.**

The impulse to flee the market in advance of, or even during, a significant market decline is both very human and very irrational. (This goes a long way toward explaining why the advisor's job is not portfolio management but behavior management.) Its irrationality is rooted in three incontrovertible truths:

(a) The decline one is trying to flee from is temporary—as are they all—and will in due course give way to a resumption of the permanent uptrend, as corporate earnings, cash flows and dividends ultimately carry equity values on to new (and often undreamed of) heights. **Fleeing a decline that you know is temporary makes no sense.** You don't have to know where or when (or even why) a decline will end—and you can't. You just have to know **that** it will end—and be followed by a resumption of the permanent uptrend *which is usually about as sharp as was the prior decline.*

(b) Moreover, getting out of the market demands that an investor have a plan for getting back in when the permanent advance resumes. Unfortunately, that resumption cannot be timed, any more than the decline can. This is academic, because the person surrendering to dread and fleeing the market isn't even thinking of getting back in, much less developing a strategy for

doing so. Thus, getting out isn't really a strategy; it's more in the nature of an impulse, and a thoroughly irrational impulse at that. ***There is never a sound reason for liquidating a lifetime/multi-generational portfolio in reaction to a decline in its market value.***

(c) Thus, the only argument that can be advanced in favor of fleeing the market is a current events-driven contention that "it's different this time." And in a short-term sense, this argument is always right, inasmuch as the particular circumstances driving a major market decline are often just unique enough to blind the panic-prone investor to its essential timelessness. ***But in the long run, the market cycle is never different; it is an irregular pattern of excessive optimism followed by excessive pessimism and back again, cycling around a secularly rising trendline.***

...

Until you evolve sufficiently, you will probably always have "clients" who will reject this advice, and liquidate their portfolios in a panic despite your best advice. If you are honest with yourself, you will conclude that this is always your fault, because you knew they had these proclivities but took them on anyway, telling yourself you could effect some sort of profound (nay, miraculous) emotional displacement. As always in similar circumstances, I advocate the only rational response: ***whenever someone ignores or rejects your advice, immediately stop advising him.***

Longtime readers of my work will find nothing new here, and may even decide that the foregoing essay is largely repetitive. They will be correct. (I console myself that Vince Lombardi just kept running the Packer sweep, game after game, year after year.) I present this material here, and in this form, so that forever after—combining the truths of this essay with those in "Thou Shalt Not"—you will never again attempt to reason with the apocalypse *du jour*, nor feel that it is your job to prove anything.

Resources

FROM 8/11 ISSUE

1 It is ironic that the last, and in many ways the best, book on the late financial crisis that you'll see reviewed here is by a *New York Times* reporter, and lays the blame where it belongs: squarely at the feet of the government and its mindless "social justice" goal of homeownership for nearly everyone. This goal was perverted by the GSEs, Fannie Mae and Freddie Mac, for their executives' own personal gain (Fannie, under James Johnson, was as corrupt as any Wall Street firm). And the single-minded way in which Fannie spread around what was essentially bribery and influence-peddling to silence its critics was beyond anything a Wall Street malefactor would have dreamed possible. One can say all one wants about the cynical lending policies of a Countrywide Financial, but no entity bought more Countrywide mortgages, nor was a better friend to its flamboyant CEO Angelo Mozilo, than Fannie Mae. The defense of the GSEs to and beyond the bitter end by bullying politicians like Barney Frank completed the vicious circle, which ended up costing the taxpayer hundreds of billions of dollars. The story is clearly and dispassionately told in *Reckless Endangerment* by Gretchen Morgenson and Joshua Rosner. It demands to be read.

FROM 7/11 ISSUE

2 I can never think of my friend Joe Jordan without remembering how Jimmy Breslin described Speaker "Tip" O'Neill: "a warm spring rain of a man." Joe is a Senior VP of MetLife, in charge of their Behavioral Finance Strategies; in the larger, better sense, he's a legend in the life insurance industry, incapable of getting off a plane in a town where he doesn't have friends, from the Bronx to Bangkok to Boston and everywhere in between.

When Joe was still an infant, with three older siblings, his father, a successful attorney, died suddenly. Whereupon his mother discovered that he had cashed in his life insurance policy just a few days earlier. This disaster shaped Joe's family's history. His mother went bravely out to work, and his two sisters eventually had to postpone their own college educations in order to work so that Joe's brother and he could get their degrees first. Joe went to Fordham, where he played offensive guard on the football team—the same position played earlier by one Vincent T. Lombardi, with whom Joe is in Fordham's Football Hall of Fame.

Small wonder, given his life experience, that Joe entered the life insurance industry. He was Home Life's Rookie of the Year in 1974, made MDRT the next year, went over to run PaineWebber's annuity/insurance sales and product development in the '80s, and then joined MetLife, where he's been a friend and mentor to thousands of advisors, and a thought leader for the company. He is that most rare and valuable person: a true student of the business.

Joe always knew he had a book in him, and has finally made it manifest. It's called *Living a Life of Significance*, and it's published by the American College, to which Joe is, altogether typically, donating all the revenues. (It costs \$15 and can be ordered at www.theamericancollege.edu/significance.)

The spine of the book, and the great lesson that leaps out of it at you, is that we advisors do not have a moral right to our call reluctance—that we were sent into the world to try to prevent the all-too-common disaster that befell Joe's family from overtaking other families, either because someone dies too soon or lives "too long."

CONTINUED ON PAGE 8



Ask Nick

FROM 3/11 ISSUE

Q I have a handful of clients who are blessed to have wealth that would appear to easily exceed their needs. For example, I have a retired couple who collect over \$100,000 annually in pension and Social Security income and live on maybe 80% of that. They also have about \$1,000,000 in financial assets. Of this amount, we have about 40% of this invested in equities due to their desire for stability and safety. Just looking for your insights on this. Thanks.

A I don't think I have any insights beyond the painfully obvious, to wit: the current levels of their income and expenses are irrelevant to anything but their lifestyle in the current year. What a financial planner worthy of the name does is to estimate the trajectory of their living costs (rising at, say, three percent per year) as against the trajectory of their income. If a sufficient portion of the income is fixed, the living expenses will rise to, and then surpass, the level of the income. Thus, for people in their early to mid-60s, currently spending 80% of their income, the phenomenon of living costs surpassing the income at some point is (given normal lifespans) a mathematical certainty. At that point, they will have to begin invading principal in order to sustain their lifestyle; obviously, that's a death spiral.

The corollary question, of course, is why they are seeking—through their own quest for the illusion of “safety”—to impoverish their children and grandchildren. Because whether they're conscious of it or not, and whether they care or not, that's precisely what they're doing. In effect, they're living on their heirs' inheritance. That's because, to the extent that their assets are in bonds rather than equities, they're going to leave their heirs wallpaper rather than purchas-

ing power (which is the only sane definition of wealth in the long run, and which only equities preserve and enhance).

The secularly rising dividends and capital values of equities are the only way a retiring couple of even average life expectancy can both match the trajectory of their income to the trajectory of their living costs, and preserve the purchasing power of their heirs' inheritance. Bonds do neither, and are thus a quintessentially irrational holding for the long-term (and especially for the multigenerational) investor.

FROM 5/11 ISSUE

Q Some 40 years ago, the seeds of the “financial planning” profession began and, thus began a movement to connect the disparate securities and insurance industries in order to serve the investing public in a comprehensive and objective fashion. Since then, mainstream media has seized the air-waves and has marginalized the advisor, the client and the life-goals we address every day. The media keeps the focus on those daily items that ill-serve the average client. As an industry, how can we create a more balanced conversation, focusing less on the “apocalypse du jour” and more on the real-life decisions we help clients decide?

A I don't have any idea what we can or even should do “as an industry;” the question doesn't interest me and shouldn't interest you. The mainstream media are the mortal enemy of advice and the advisor, of a long-term planning perspective, and of the truth itself. (They cover the news, which is antithetical to the truth.) This is a constant; it will never change. You and I signed up for a calling which involves rowing true north for our entire lives—that

is, rowing upstream against the current of filth flowing ever downstream from the media. My advice to you is simply to man your oar. I will man mine. I don't care what “the industry” does, any more than I care what the media do.

By the same logic, I'm not the least bit interested in “creating a more balanced conversation,” nor am I even sure what it means. Media speak untruth. You and I speak truth. There is no balance to be struck; you can't make a deal with the devil. My attitude toward clients, whenever the mainstream media take a position opposed to mine on any subject, was (and is) essentially: you can choose to believe them, or you can choose to believe me. I who know you and care deeply about you counsel X. The media, which does not know you, does not care about you and wants only to keep you reading and watching it, appears to be counseling anti-X. It is not my job to refute this, nor does my perfect claim to your trust depend for its validity on my willingness or ability to refute it. My perfect claim to your trust is based on (a) my perfect trustworthiness, (b) my knowledge of your financial goals and capabilities, and (c) my education, training and experience in solving financial situations like yours. The choice of which of us to believe is entirely yours, and I would not seek to influence your decision, beyond stating the perfect truth as I am given light to see it.

It is a total waste of precious time and energy to get worked up over the media. It is almost literally getting worked up about water flowing downstream: this is a law of nature, and it has nothing to do with you. Work your little plot of ground. Speak perfect truth to your own prospects and clients. Show that truth to enough people, and you will, I am perfectly convinced, earn treasure on earth and in heaven.

This Just In: The Death of American Manufacturing Has Been Indefinitely Postponed. Again.

FROM 8/11 ISSUE

According to the National Association of Manufacturers (NAM.org):

- The U.S. is still the world's largest manufacturer, producing 21% of global manufactured products, *the same share it held 30 years ago*. China is second at 15%, and Japan third at 12%. The manufacturing sector is currently leading the U.S. economy for the first time since the 1970s.

- The number of U.S. manufacturing jobs may have fallen from 18 million to 12 million in the last ten years, but the remaining workers in U.S.

plants and factories are twice as productive as those workers in *the next ten leading manufacturing economies*.

- Even with a third fewer workers, U.S. manufacturing produces \$1.6 trillion of value on an annual basis. *On its own, it would be the ninth largest economy in the world.*

- Earnings of the S&P Industrials Index are projected by Bloomberg to grow 18.4% in 2012 vs. 14.9% for the S&P 500, *yet at midyear 2011, the Industrial Index was selling at 12.6 times the 2012 earnings estimate.*

Mind The Megatrend: *The Rise of the Middle Class Is A Defining Event*

FROM 7/11 ISSUE

"In 2004, General Motors sold 10 cars in the U.S. for every one car sold in China; the ratio is now quickly approaching one to one, and soon China will be a bigger market than the U.S. for America's largest automaker. In 2008, Nokia, the largest cell phone maker in the world, had net sales of \$8.2 billion in China, more than three times its U.S. revenues. In the 14 years since opening its first store in China, Wal-Mart has gone on to open an additional 267 retail units."

These factoids, from a fascinating paper by Homi Kharas and Geoffrey Gertz of the Wolfensohn Center for Development at the Brookings Institution, offer the beginnings of an insight into the growing shift in global consumer demand from the West to the East. The authors continue, "By 2015, for the first time in 300 years, the number of Asian middle class consumers will equal the number in Europe and North America. By 2021, on present trends, there could be more than 2 billion Asians in middle class households. In China alone, there could be over 670 million middle class consumers, compared with perhaps 150 million today."

Advisors and their clients, seeking an answer to the mystery of why the great companies in America and the world are performing so very much better than the domestic U.S. economy seems to be doing, should pay close attention to this phenomenon, for surely it is the defining macroeconomic trend of the first third (if not more) of the twenty-first century: the exponential growth in the sheer numbers, not to mention the purchasing power, of the middle class outside of the developed world.

Our clients know, in a kind of vague way, that more and more of companies' revenues are coming from outside the U.S. And we have become accustomed to thinking—quite correctly—of the developing world as a burgeoning source of low-cost manufactures. But functioning as a low-cost supplier is a means to an end, not an end in itself. The end, of course, is the enrichment of

the developing societies themselves—their emergence as consumers and ultimately as investors—and that's an idea that tends to dawn on Americans rather more slowly. (This heuristic explains, among other things, the fatal attraction of the unwashed to the Harry Dent fallacy, which holds that the equity market in the United States must inevitably decline as the baby boomers retire and become net sellers of stocks. This assumes that the market for U.S. stocks is essentially limited to U.S. investors, a notion which grows more patently absurd by the day.)

The OECD, in its 2010 paper "The Emerging Middle Class in Developing Countries," estimated total spending by the world's middle class in 2009 at US\$21.3 trillion. It projected this spending to grow to US\$35 trillion by 2020, and to US\$55.7 trillion in 2030. ***It expects 80% of this projected growth to come from Asia alone.*** In the largest sense, this trend is a function of the relative maturity of developed economies almost as much as it is of the dynamism of the emerging markets. After all, 82% of Americans own a car, but fewer than 20% of Brazilians do. Eighty-nine percent of Americans own a cell phone, but only 30% of Indians do—and their population is four times ours.

Inevitably, then, the reality is not just that companies are finding more of their revenues and earnings outside the U.S., but that the more business they do overseas, the better they're performing overall. The estimable Ned Davis Research firm calculated the 20-year returns (through 2010) of S&P 500 companies that were "more global" (i.e. got more than 50% of reported pre-tax income from foreign operations) as against those which were "less global." Unsurprisingly, the 20-year cumulative return of the "more global" companies was 802.96% vs. 611.62% for the "less global" equities.

Please see that this is no sense a recommendation that advisors vector their portfolios in some internationally skewed way, any

CONTINUED ON PAGE 8

Fear Is Your Friend

[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 7/11 ISSUE

“The financial world is a mess, both in the United States and abroad. Its problems, moreover, have been leaking into the general economy and the leaks are turning into a gusher. In the near term, unemployment will rise, business activity will falter and headlines will continue to be scary.

“I’ve been buying stocks.”

So wrote one Warren E. Buffett—the world’s most admired yet least imitated investor—in a *New York Times* op-ed piece published on October 18, 2008, about a month into the post-Lehman Great Panic then engulfing the world.

(For the record, October 18 was a Saturday; the S&P 500 had closed the night before at 940.55, on its way to 677 five months later. And every day in between, somebody or other blogged that the old man had finally lost his touch. As I write, the S&P is trading at 1285, and the Buffett-bashers are nowhere to be found. But I digress.)

The point Buffett was trying to make—and the point of the little meditation you are reading now—is that periods of well-publicized economic and financial distress have historically turned out to be periods of above-average opportunity in equities. And why? Because such distress usually engenders widespread fear, which in turn leads to waves of panic selling, which in turn drives the prices of the great companies in America and the world down to very attractive valuations.

In just that sense, fear is the true friend of the long-term investor. And the corollary of that insight is that episodes when you are

feeling the most fear—and everyone around you is reflecting that same heightened sense of fear—*have historically been the worst possible times to give in to, and to act upon, that fear.*

No one is suggesting that you not **feel** fear, because it’s a response that’s hard-wired into all of us. When some no-name catastrophist is suddenly all over the airwaves, predicting that the debt ceiling crisis is insoluble, and that it must and will lead to a new Great Depression—and especially when our friends and neighbors begin taking up this refrain, amid falling stock prices—we would simply not be human if we didn’t feel some fear.

The trick is, at the very least, not to **act** on the fear, which in this context means: don’t panic out of the quality equity investments that you’ve accumulated for long-term goals such as education and (especially) retirement. And at best, of course, the optimum response to fear has been to recognize it as a breeder of enhanced opportunity—indeed, the greater the fear, the greater the opportunity has always been—and to continue accumulating shares in your quality portfolios at distressed prices. The latter is precisely what Buffett was doing in October 2008: **he was recognizing that fear was his friend.**

The issue here isn’t just impulse control (“I may be feeling a lot of fear, but that doesn’t mean I have to act on it”). It’s the hard-headed business judgment—shared, I assure you, by all successful long-term investors—that the current market prices of the great companies are inversely related to their long-term value as operating businesses. Lower stock prices—the concomitant of widespread fear—have always meant greater long-term enterprise

“

BUFFETT ON GOLD

FROM 7/11 ISSUE

“You could take all the gold that’s ever been mined, and it would fill a cube 67 feet in each direction. For what that’s worth at current gold prices, you could buy all—not some—all of the farmland in the United States. Plus, you could buy 10 Exxon Mobils, plus have \$1 trillion of walking-around money. Or you could have a big cube of metal. Which would you take? Which is going to produce more value?”

You Have No Moral Obligation To Anyone Who Rejects Your Advice

FROM 7/11 ISSUE

There is a chronic, low-level buzzing—much like the noise made by the most annoying insect that's ever vexed you—in my email traffic and my personal interactions with advisors. It is the persistent question of what obligation (moral, ethical, business and/or personal) an advisor has to someone who has turned away from the advisor's best advice, and who is now in the process, either by commission or omission, of shooting himself in the foot.

The refrain is always the same: an allegedly high-minded determination by the advisor to hang in there, long past the point where you've been well and truly blown off, to save the poor benighted client from himself. This is a delusion. Do you know what this impulse really is? I'll tell you exactly what it is. It's prospecting avoidance, writ large.

It is the very essence of my book *The Game of Numbers* that all good things must inevitably come to the advisor who simply never stops prospecting. None can deny this, and I have yet to meet anyone who tried. Less obvious, and therefore very insidious, is the dark corollary of this glorious law. To wit: not only do all bad things come to the advisor who stops prospecting, but *not prospecting is itself the cause of all*

the bad things that ever happen to us.

A case in point is the illusion that we have a moral obligation to some dithering idiot who wants to put all his money in gold, panic completely out of the equity market, or invest all his retirement savings in bonds and CDs—to name but three common pathologies. Why would an advisor evince such a pointless and even humiliating intent? (“He threw my very best, most heartfelt, most logical advice right back in my face. I know what I'll do: *I'll call him up and, word for word, repeat the same advice he rejected. It's my moral duty.*”) Why, you ask? Again, I'll gladly tell you: however unconsciously, you think the pain of repeating yourself to this troglodyte is somehow less than the imaginary discomfort of using the same time and energy to prospect. This isn't moral; it's masochistic. It's as actively and implacably self-defeating as anything you could possibly do.

All problem “clients,” and all humiliating “client” interactions, stem directly from your refusal to prospect for better people—that is, from your submission to The Law of the Soggy Potato Chip, which holds that a child who can't get fresh, crisp potato chips will eat soggy potato chips rather than none at all. An advisor who molycoddles inappropriate “clients” is simply confessing his

prospecting paralysis. He puts up with the indignities in his practice because he does not think he can find the better clients he claims to believe he deserves, *and he thereby ceases to deserve better clients.* This may sound like a vicious cycle, but of course it's really a downward spiral.

I need hardly add that all disciplined, consistent prospecting activity, even if it begins from a very low base, enhances self-esteem, which in turn leads to accreted energy, which leads to even more prospecting, which leads to even more self-esteem, which reinforces both the conviction that one deserves better clients and the determination to find them whatever it takes, which leads to more (and higher quality) prospecting, and so on. This is the pure essence of a virtuous cycle.

When you repeat sound advice that has already been rejected—when you hallucinate a moral obligation to try to help someone who has unequivocally rejected your help already—you do much more than waste your time and energy. You reinforce your own unconscious image of yourself as a loser who's too paralyzed to prospect. Don't do it. It's not just that you can't help the “client;” it's that you can only harm yourself...a lot.

Preserve your dignity. Enhance your self-esteem. *Call someone else. Anyone else.*

value. Investment success is as rare as it is because this common-sense realization is so terribly uncommon.

This leads us to the realization that if there's one supremely reliable way of conquering fear in the context we're discussing, it's to think of our equity holdings not as “stocks” but as companies—as rational, profit-seeking businesses operating in an increasingly global economy.

There were fewer than 300 million middle class people in the developing world in 1980, according to studies by the United Nations and the World Bank. Today there are over two billion, and by 2025 there may be as many as 3.6 billion. Global spending by the middle class, according to the OECD, was recently just over US\$21 trillion. It may be US\$35 trillion by 2020, and US\$55 trillion by 2030, *with as much as 80% of the projected growth expected to come from Asia alone.*

What must the long-term implications of these megatrends be for great businesses? How much more must their long-term enterprise values be driven by this unprecedented global surge in the quality of everyday life, as opposed to the volatility—the sheer day-to-day irrationality—of “the stock market”?

I'd be willing to bet that the price of your home, measured from its bubble top half a dozen years ago, is down about 30%. You haven't sold—you still need a place to live—and you're generally philosophical: the price probably went up too much back then, and it's probably down too much now. Long-term, a home's price will probably track its replacement cost, which tends to rise gradually over time with inflation in land, labor and material costs. So be it.

But let your equity portfolio go down 30%—which the S&P 500 has done, on average, one year in five since the end of WWII—and you're ready to jump out a window, if only to get away from doom-and-gloom-shrieking commentators, howling “It's different this time.”

You have a choice. You always have a choice. Believe the doomsayers, give in to the fear...and wonder, a year or two later, what you could possibly have been thinking. Or choose to see fear as the driver of lower prices and therefore of increased values—a 30%-off sale on the great companies—and prosper in the long run. **Fear is your friend...if you'll let it be.**

© 2011 Nick Murray. All rights reserved. Reprinted by permission.

Resources

CONTINUED FROM PAGE 3

That's why Joe established a daily contact commitment at MetLife some years ago, and it's that impulse—to make just one more call, to try to bring financial peace to just one more household—that infuses this beautiful, critically important book. *Living a Life of Significance* is essential reading for your practice and your soul.

FROM 4/11 ISSUE

3 Legg Mason, bless their hearts, has created a terrifically effective marketing piece out of the *Time* magazine serial apocalypse covers which were

the subject of an item in this space last year. The title is *Learning from the Lessons of Time*, and it's on the "Education" page of Legg Mason's website for individual investors. *Time*, like all mainstream media, is first and foremost a distiller of economic and financial malaise robbed of all historical context. It feeds back to the public their most inchoate anxieties, because that's what sells magazines. And what's always particularly fascinating about *Time* covers is their wonderfully perverse timing: like the public to whom it panders, *Time* always gets most luridly

bearish right at the bottom. Legg Mason graphically juxtaposes the covers, and doom-laden quotes from the accompanying cover stories, with the relentless upward trend of the equity markets. The result is thought-provoking, often hilarious, and perhaps best of all non-argumentative: you can put it in a client's hands and make your point about the pathology of pessimism without being preachy. I just love it, and you will too. Finally, a marketing piece that actually helps you "sell" a critically important long-term investment truth.

Mind the Megatrend

CONTINUED FROM PAGE 5

more than the accompanying essay ("Keep Watching the Companies, Part Deux") is an argument for piling into the megacap value sector. The latter (and its predecessor last month) simply makes the case that companies are by every measure far healthier than is the macroeconomy. This piece is meant to suggest that the global

economic outlook, paced by the explosive growth of the middle class, is far more dynamic than that for the U.S. domestic economy—a trend that is in some sense only natural. All three of these essays are intended to help the advisor focus his clients (and indeed himself) on the huge disconnect between the attractive valua-

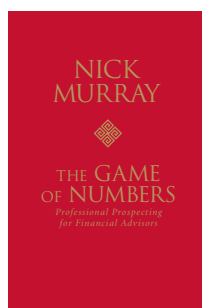
tion of and bright prospects for the great companies, as opposed to the amply-documented vicissitudes of the U.S. domestic economy. We all grew up in the paradigm where the U.S. economy carried the world, and the U.S. consumer carried the American economy. Literally and figuratively: we're not in Kansas anymore.

Act Now!

Twelve monthly issues for \$275

To subscribe, please visit
www.NickMurrayInteractive.com
or call Steve Kimball at Charter Financial
Publishing Network at 732.450.8866, ext. 12

NEW SUBSCRIBERS



OR



+



New subscribers will receive, at their option, either Nick's book on prospecting, *The Game of Numbers*, **OR** his practice management book *Behavioral Investment Counseling*. **AND**, as a bonus, his three-hour CD program *Managing Investor Behavior*.