

July 2009 - Clarity

Clarity refers to one's ability to clearly visualize an object, or concept thought, with understanding in the "mind's eye".¹ When working within a profession such as investments, where so many variables are always at play beyond one's control, clarity of vision and thought is a great comfort. The predominance of my 38 year professional career has been spent in "The Clarity Zone". I believed very strongly that I could "see" where events were unfolding, and how long that trend may last. I have advised clients through long cycles of rising interest rates and downward interest rate cycles. Republican administrations and Democratic administrations. Congressional gridlock and full party control administrations. Low economic growth, slow growth, no growth and rapid growth. Marginal Federal tax rates of 70% and marginal rates of 28%. Post depression record market highs and numerous market correction lows of 1974, 1987, 1991, 1998, 2002 and now, 2009.

Let me say with clarity that this time it "seems different" and I think there is cause to be concerned about worsening economic conditions and resultant market returns. Let me say clearly that we are aware of these concerns as your financial advisors and have taken cautious actions in managed accounts, and have been giving cautious advice within advisory accounts. I want to say clearly that I believe we are in a time period of world unrest and world economic uncertainty; I do not know with a reasonable degree of clarity how long this condition might endure. However this is not a time to "emotionally abandon ship". This should be a time to collect and digest facts in order to be able to think and act with clarity of the mind that helps to increase your comfort level. What I do know with clarity is that this cycle should end and prosperity in some form is likely to return again, and investors need be positioned to participate along the way! That positioning is going to depend on your personal risk tolerance (how much money could you afford to lose in volatile markets) and the time horizon for your investments (the longer, the better for risk taking).

We have said with clarity over the past several quarters of our Narmi Group at Morgan Stanley - Smith Barney Newsletters that America was taking a new shape politically and economically. We wrote in July 2008 of "The Boys of Summer" and discussed what the Federal Reserve board and the Treasury might do if the economy's back was pressed to the wall. We said that our job within the Narmi Group was not to debate the politics of what was transpiring in October 2008, but seek to profit from the politics and new spending priorities. We spoke of the contraction of various forms of personal credit such as the home equity loan and the reduction of credit card limits, as examples. We spoke of the New America and the New Wall Street in November 2008. In January 2009 - America, we wrote of the wounded, but yet comparatively strong and still dominant US economy. We wrote in April 2009, "Don't fight the Fed", and how markets could likely post strong rallies in periods of rising unemployment. In other words, as I look back, we have spoken with clarity in our newsletters of the past several quarters describing what we believed could be an outline of scenarios to come, and what the consequences could be. I think we have spoken with a very clear vision. Have we made mistakes? Yes. Will we make mistakes moving forward? Yes. This is not an exact science and good old fashion risk must be taken to achieve growth and gain, in my opinion.

Going back to the first paragraph, I see with certain clarity that there have been numerous cycles over my near 40 year career. I have seen "long cycles" of interest rates; "long cycles" of taxing policies; "long cycles" of economic growth and "short cycles" of economic contraction and market corrections. I can clearly see in my mind that the long cycles of economic and market events appear to be tolerated with calmer emotions than the short cycles, which tend to be more violent and emotionally draining. I am not a visionary; this is a simple common sense interpretation of human behavior. Therefore, I look at the Dow highs of 14,198² and compare that to today's levels of +/- 8400 and I clearly see a lot of negative news already having been discounted in the equity markets. Is it over? We don't know, but we do know that a lot of bad news is already factored into equity prices. Could it go lower? Don't know. Could it go higher? Very definitely, yes, looking longer term. What will get me through this if I stay invested? Simple patience, guts, and a long term goal is what I believe you will need.

If I were to hazard a guess, I would guess that we are well along in a violent short cycle of correction of various market excesses. Historically violent market corrections frequently become excessive themselves and present wonderful opportunities for long term investing. As financial advisors, we are trying to advise clients how and when to potentially take advantage of these conditions. Regardless, we feel that we are in different times, yet we need to maintain our proven focus. We have clearly emphasized "total return" investing during these times and believe this could be a very long cycle style of investing, itself. We believe that we could be back to that very long cycle of more muted economic growth of the 1950's, ³ restoring dividend income to the lofty status of providing nearly 50%, if not more ⁴ of the total returns of the equity markets for decades and decades, prior to the explosive growth markets of the latter 20th century. ⁵ Again, this could be a pleasantly rewarding long cycle that most of us would enjoy.

Clearly, what everyone needs is a long term financial plan. The Narmi Group offers this complimentary service through Theresa Rynaski. We do invite you to call in for your complimentary planning sessions. I think you'll feel better if you make your appointment to see Theresa. I know that we always feel better as your financial advisors because it puts us both on the same plane of information and implementation.

We are attempting to speak Clearly in this newsletter. The sequence of events we saw and talked about was a collapse of the credit markets in 2008; a Washington and market reaction to that collapse in 2008, early 2009, and a no-holds barred "Don't fight the Fed" approach in early 2009. We currently see uncertainty possibly developing again from elements of economic and policy agendas. We are cautious, but not frozen. We are not living in a vacuum as a Group. We spend countless hours as a Group "talking and thinking about all the things that could go wrong"; that is what we are supposed to do for you! So clearly, our job is to think and worry. Your job, if you can, is to be as gritty as possible and let us do our job of thinking and worrying, and focus on long term goals.

In the interim, as always, clearly focus on your church, family and schools within your community. Dig a little deeper if necessary and share some of the fruits of your excess. We believe America is still the wealthiest county in the history of the world. Share your time, talent or treasure, this is where the real dividends of life are paid!

Clearly, Have a pleasant Summer!

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1 – Webster's Dictionary

2 – Dow Jones: 10-11-2007

3– Standard & Poor's

4 – Bloomberg

5– Standard & Poor's

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