



# Napa Wealth Management's The Sensible Investor



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## The Platinum Rule

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Most people have heard of the Golden Rule and it's not "He who holds the gold makes the rules." What I am referring to here is the rule that parents, grandparents and teachers have drilled into our heads for years. Simply stated the Golden Rule says "Do unto others as you

would have them do unto you." One of the great commands, but could be construed as a somewhat selfish statement.

Consider this example: I love vegetables, which might sound crazy to some, including my wife and kids. If I were planning a potluck I would ask everyone to bring salads, vegetable trays, and in this season, heirloom tomatoes (one of my favorite vegetables). I wouldn't miss the chips, dip, crackers, cheese, pretzels, Jell-O rolls, pasta salad... you get the picture. Now, admittedly, I would eat the non-vegetable snacks, but if I were simply thinking of doing unto others as I would have done unto me, I would not include these more traditional snack items on my menu. So in this example, the Golden Rule would give very little consideration to my friends and guests.

Contrast that to the Platinum Rule, "Do unto others as they would like to have done unto themselves." Treat people like they would like to be treated, not how you would like to be treated. Find out what is important to the other person and deliver.

I am thankful that my wife Maria, who is the best example of one who practices the Platinum Rule, is in my life. If Maria is planning a potluck or invites you to dinner she always asks what kind of food you enjoy or if there are any foods you don't care to eat. She would "do unto others as they would like to have done unto themselves."

At Napa Wealth Management, we say, "What matters most to you is what matters most to us." That is why we strive to keep you informed with details that are relevant to you and your money.

Our clients have told us that open and honest communication is important and being updated on a consistent basis brings value. The kind of information we prefer may not match up with what you desire. With this in mind we try to bring information to you that is easy to grasp without being overwhelming. To the best of our abilities we will continue to practice the Platinum Rule.

### Economic Update

Let me take you back to some things we wrote about in the past. We made some predictions, something we rarely do. Why? Because we don't like making predictions. They are difficult to make and most people who do are called fools. But based on the hype that was being broadcast from the airwaves and put onto newsprint, we felt that you would want to hear from us as to what we saw happening in the economy and stock market.

On March 2, 2009 the Dow Jones stock market index was sitting at 6,763 and at that point we stated that our forecast, based on our investment models, pointed to the Dow reaching 9,000 and when that happened (assuming it would) we would be looking to sell stocks. By mid-June the Dow Jones had rallied to 8,800 (close enough), a 31% gain from March 2, and we followed our discipline to sell stocks in the face of the stock market optimism that we said would accompany such a strong move in the market.

Please understand, selling stocks just because the market moves higher is not the sole reason for such a move. We have been very forthright in telling you that we have been concerned about the viability of an economic recovery in the short-run. I was quoted in the North Bay Business Journal on March 23, 2009 stating that we don't see a sustainable economic recovery until 2012. Surely we could be wrong and I honestly hope that we are, but the reality is that our economy didn't go from being in the "worst recession of our lifetime," as President Obama stated on July 2, to a healthy, vibrant and growing economy in four months.

Knowing that when optimism is high, so is risk and the bullish sentiment reading (indicator of investors' optimism that stocks will rise) recently hit 89%. The last time sentiment was this high was at the top of the market in 2007. You get the picture. Over the past several weeks we started to reallocate our positions to become more defensive.

Why are we so concerned when there are some reports that point to a recovery? A headline on July 2 read "Manufacturing Data Support Optimism Recession is Ending." Recently a client said that she read an article quoting a financial advisor stating that we are out of the woods (my paraphrase). Let's take a closer look to identify why we don't see it that way.

Take unemployment for example. As Sadoff Investment Management in Milwaukee, Wisconsin, puts it, "It's horrible." They went on to further clarify, "The real, more accurate unemployment rate (the alternate unemployment rate U-6) is 16.4%. This includes the total unemployed plus all marginal and part-timers looking for full employment. Many companies, rather than terminating workers, are cutting their hours and wages (the new part-timers). Last month part-time workers rose 129,000. Since the recession began, the ranks of part-timers have increased to 12.5 million. Economist David Rosenberg estimates that nearly one in three have been pushed into part-time work."

Sadoff continued, "Consumers are deleveraging. In April consumer credit tumbled 7.4% annualized. In addition, consumer credit dropped \$16.5 billion in March and \$10.9 billion in February. Remember, consumer spending accounts for 70% of our GDP. If these trends of reduced spending, more savings and deleveraging continue, how will this recession pivot into an expansion?"

Let's take a look at the global economy. Annual consumer price inflation across the 16-nation euro zone turned negative in June for the first time since records began 12 years ago, the statistics agency Eurostat reported on June 30. Daniele Antonucci, European economist at Capital Economics, said the ECB runs the risk of entering a "more prolonged and damaging period of deflation" due to "more timid" policies compared to other central banks.

"With factory gate prices falling, wage growth likely to slow

sharply and a big amount of spare capacity in the economy, core inflation will decelerate considerably," Antonucci said. "What's more, the concern is that a period of negative inflation will put further downward pressure on households' and businesses' inflation expectations."

### Investment Update

Over the past several weeks we have positioned our portfolios to be more defensive. In addition to the rotation out of some stocks we invested part of the portfolios into inverse index ETFs (Exchange Traded Funds). The two we selected move in an inverse direction to the S&P 500 and NASDAQ indexes. This allows us to hold our income investments in the portfolios and collect the dividends while reducing the volatility in the portfolios.

Inverse ETFs work very simply: If the S&P 500 drops by 1%, the inverse ETF increases by 1% and vice versa. This creates a balancing effect in the portfolios. In other words if a portion of the portfolio goes up when the market drops and another portion drops but is invested in dividend paying stocks they complement each other. You don't forgo receiving the dividends by selling all of your stocks in order to reduce volatility. On several occasions when the market dropped over the past few weeks, our accounts had very little change and on some down market days they moved higher.

We continue to be honored by receiving a consistent stream of new clients on a monthly basis who have largely come as referrals from our faithful clients and friends. Words cannot express how much that means to us. It has become evident that our new clients are grateful that you have brought us together. You indeed have employed the Platinum Rule with us.

If you have friends or family who are not hearing from their advisor or are being told to just "hang in there," please have them contact us. We can help them navigate this extreme time that we will find ourselves in for the next few years. Now is not the time to remain complacent with one's wealth.

Enjoy a wonderful and relaxing summer and of course, keep looking up!

George