

The Sensible Investor

2009 TD Ameritrade Investment Conference: A Consistent Message

By George McCuen



In February I attended the TD Ameritrade Investment Advisor Conference in Las Vegas. Armed with an impressive lineup of speakers which included energy icon T. Boone Pickens and economic experts, the 900 investment advisory firms in attendance were thirsty for information that was meaningful and not simply full of fluff; the kind of information our clients expect from us. From my perspective the messages were consistent and the possibilities for a quick economic recovery were commonly thought to be slim.

The firms in attendance, like Napa Wealth Management, were all independent registered investment advisory companies. With all of the frustrations and mistrusts toward the large Wall Street firms and banks, the independent registered investment advisors, as reported by TD Ameritrade's president Tom Bradley, have seen a migration of investors from the main stream brokerage firms. Over the last 8 years, the gap between investors at the large brokerage firms and the independent advisors has narrowed from about 23% to 3%. Investors have come to demand better service, more objectivity, transparency and independence which has been missing from the big name firms. Bradley stated it simply, "trust but verify". The Bernie Madoffs of the world are experts at keeping themselves insulated from the transparency and accountability that ethical advisors welcome. Holding your accounts at a firm like TD Ameritrade allows investors to verify their investments. Madoff's clients didn't enjoy this accountability and simply trusted his word.

T. Boone Pickens got on his soap box about becoming less dependent on foreign oil. "We are importing 70% of the oil we use everyday from the most hateful countries," stated Pickens. His answer is natural gas and wind energy. In late 2007 Pickens projected that oil would be \$150 per barrel and in July 2008, oil hit \$147 a barrel. In his peaceful Texas drawl, Boone calmly stated, "I consider that close enough to claim victory". It is interesting to note that during the summer of 2008 Pickens predicted that oil would skyrocket to "\$300 a barrel". There was no mention of oil going back to the \$30's as it has recently. What a wild ride!

Dr. William Poole, retired President of the Federal Reserve Bank of St. Louis talked about the stimulus package. "Federal money brings Federal control" and "bailout begets

bailout" was Poole's early comments about this package. Poole continued, "A market economy is not efficient if firms are not permitted to fail".

Poole feels that the third or fourth quarter of 2009 will mark the end of the current recession. He believes we will see interest rates rise and inflation start to emerge in 2010 into 2011. Near the end of his talk Poole commented, "Nimble investors will prosper in this environment". I believe that was his way of stating that the buy and hold investor will have a challenging time in this market, but bear in mind he didn't reference any investment style.

TD Bank's Senior Vice President and Chief Economist, Don Drummond gave his outlook for the U.S. economy. Mr. Drummond does not feel that we are at the economic bottom yet. "Housing has not become cheap and is still above average levels from relative home rental vs. home owner affordability", says Drummond. Even though real estate has had a 50% pullback from its highest level, Drummond says that from 2002 to 2008 housing prices are still up and at risk for an additional 15% drop.

Drummond points to exports being down as another indicator that the U.S. economy has not seen the bottom of this recession; although he sees the U.S. dollar returning to "trend to depreciation". A weakening U.S. dollar will support exports. Like Poole, Drummond indicated that long-term interest rates will increase as the U.S. Government buys up yields on Treasury bonds, but not right away. In summary Drummond says that the U.S. economy will continue to "free fall" but added that by 2010 - 2011 the fiscal stimulus will find traction to bolster the economy.

I spoke with several money managers while at the conference and I found that there was a genuine concern about the state of the economy and the stock market. As Tim's article outlines, the asset allocation model requires a growing market. Most managers and investors are steeped in the asset allocation approach which in this environment will diminish returns. We believe that investors should invest in companies that provide essential services, things that we use in a depression, and that pay income to their shareholders. If we don't see an economic recovery for quite a while, we want our clients to be paid handsomely while they wait.

While I was penning my final thoughts for this article, Star-



The Coming Decade

By Timothy Ayles

Making predictions about the future is for fools. That being said, I am going to give my best fool impression. Although neither I nor anyone else has a crystal ball, when dealing

with investments, one must have conviction about whatever system or method they implement. Many people will implement the Nobel Prize winning asset allocation model going forward since it has worked for the past 30-40 years. We happen to feel that method has run its course going forward for the next decade.

Why would we make such a pompous claim? We think the asset allocation model requires an ever growing economy. That model is also based on the idea that the financial and banking system works. Unfortunately we are witnessing the slow motion destruction and nationalization of our financial system. The financial system that most models of the past were based on is changing. We therefore have to draft a game plan going forward for what we see as a new set of rules.

As we have stated many times, we feel to get through these trying times will require investors to be selective in their investments and invest only in companies that sell products that people have to buy. That in itself does not mean we stay static in our investment choices. We are not traders, but we think over the next decade we will need to continue to stay nimble in order to navigate our way through this.

That being said, let's look at our fuzzy map of the future and what we think we may see going forward. Keep in mind that this game plan will change as the future unfolds and new information is revealed. If we had to make a call with the information we have today, this is what the next year looks like to us:

Summary forecasts for the coming year:

1. The Dow rallies to 9,000 before falling to 5,000 by late 2010 - early 2011. (9,000 will bring out the talking heads about how the bottom is in and get people to feel oh so good about the stock market again. We will be looking to sell stocks into this rally)

2. Oil rallies to \$80 and maybe higher between October 2009 and May 2010 before falling to \$10 by late 2012. (Would be good for our positions currently, but we will need to look for opportune times to rotate out of energy)

3. The CPI falls to -1% plus by August 2009 and then rises into early 2010 before falling to -10% plus by mid-2011. (Deflation - time to be on the lookout for high quality corporate and international bonds)

4. 10-year Treasury rates rise in 2009 to as high as 4.8% by early to mid-2010 and then fall again between mid-2010 and 2012 to near 1% on the 10-year Treasury bond. (The current bond bubble could collapse, wiping out 30-40% of investors' money in bonds who are now running to them in the name of safety. As they give up, we will want to think about owning these bonds and locking in great income. Currently the 2.8% that the 10-year offers is very risky in our opinion.)

5. Unemployment reaches 9% to 10% by the end of 2009, on the way to 15% to 16% by mid-2011 or 2012. (While not as bad as the 1930's depression, we think historians will write about this time as a depression. I have heard the term *decession* as a mix of depression and recession that we are in.)

6. The bailout plan fails to do what everyone hopes, and Americans lose faith and trust in the manipulation of the economy. Washington will get very aggressive to try to stave off the inevitable but eventually they throw in the towel and start the long process of allowing the system to clean itself of the massive amounts of debt.

We know this is not an uplifting prediction, but it's the truth of where we stand. We thank you for your continued trust in us and know that we take the position of captain of your financial ship seriously. We will continue to monitor events as they unfold and act according to our ongoing research. We may often be wrong on our timing, but believe we will eventually be right on our thesis. Therefore we will continue to invest accordingly to this thesis. – Tim ◇

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bucks President and CEO Howard Shultz was asked on television when he thinks this economy was going to recover. Here are his words: "This is not what you want to hear but I think we are in this (tough economy) for a number of years. The status quo for the way business was done in the past will not persevere".

We are not resting on our laurels and are committed to bringing you the highest level of investment management service we can. Nobody knows what tomorrow will bring. What we do know is that it will require a good deal of research and perseverance. Together we will persevere! Keep looking up. – George ◇

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