

WALL STREET REMAKE

AUGUST 2008

Scenario: You have a friend; a close business associate that is about to make a monumental mistake that could ruin his business at worst, or cripple it at best. Would you do everything in your power to stop your friend; save him or her from possible ruin?

When markets are under duress like they are today or when they are in the throes of irrational exuberance, we as financial advisors are subjected with greater regularity with that very same scenario. It is our obligation as registered investment advisors, our fiduciary responsibility to protect our clients and friends from irrational folly.

For example: A couple in their late 50's contacts us as a referral from a long-term client. The couple wants to retire in their mid 60's (8 years) and asks us to analyze their current portfolio and asset allocation which they refer to as being "out of whack." Their desire is to have us craft a portfolio that will meet their objectives of balancing safety, income, growth over their timeframe. We go over their profile, their unique situation and put together a tailored program, and the rest is history.

Or is it?

After two uneventful years of growth and a benign stock market, the credit crunch rears its ugly head, the bear comes out from hibernation, interest rates are all over the map; and last but not least, oil and commodity prices skyrocket. Now, despite delivering everything we promised, safety and income over an eight year time frame, the plan is not as popular as it once was with our clients.

"Why are we not more concentrated in commodity funds like his friend from the golf club? Why don't we buy some gold coins, like the guy on the radio commercial suggested?"

It is true; peer-pressure works its magic on people of all ages. The reality is that most everything in our carefully crafted portfolio has gone basically nowhere over the past year, except for those dividends, yet oil and gold have gone through the roof. I know that **boring** portfolios in bull or bear markets are most definitely not good for golf club conversation.

"Why can't we own more winning stocks and get higher returns like my friend?" Why don't we sell some of those boring under-performing blue chips and income producing funds and go head first into commodities. "

I always have wondered why people have the desire to go see remakes of movies. Hollywood I know, makes the same movie again and again because their getting paid. But where is the thrill in seeing, King Kong in its third installment. Granted, all three versions were a little bit different and the special effects have definitely improved, but what remains constant is the **MONKEY DIES IN THE END!** I have seen this market cycle/movie before and I am here to tell you that the irrational investor **DIES IN THE END** (Not literally).

Whether it is the dotcom/tech fiasco where the tried and true long-term approach was irrelevant, or the credit crunch/financial bear market, where once again the tried and true long-term approach of diversification, dividends and value became extraneous.

The easy thing for an advisor to do, the path to least resistance would be to give in to the unreasonable whims of the client and go out and buy them the latest and greatest commodity fund, or in the case of the late 1990's some New Paradigm Internet fund.

One of my daughter's favorite Disney films is the classic *Cinderella*. In the story, Cinderella's fairy Godmother turns a pumpkin into a stagecoach to take Cinderella to the big Ball. The caveat is that she needed to return before midnight or the coach will turn back into a pumpkin. These fly by-night investment schemes are all short-term illusions, they too will turn back into the pumpkins they are. However you, unlike Cinderella won't have any idea when, for example **oil has dropped by over 30% over the past month; gold is down over 25%**.

We at Markowski Investments understand that we manage our clients' assets; they are not our assets despite the fact that we will treat them as such. If a client wishes to ignore our advice, it is ultimately their prerogative. We have a system for dealing with these situations when they arise and in the effort of full-disclosure we will share them with you.

1. **EXPLAIN THE CONSEQUENCES THOROUGHLY** This often does the trick, after going over the implications of their proposed actions, using history as a guide this usually brings our clients back to their senses. We must by law put our clients' interests and well-being above our own, and sometimes that needs to be spelled out again.
2. **TOXIC AVERSION** If a client in our opinion has a really poisonous idea in what he or she wants to do with their assets, and we are unable to persuade him or her otherwise, we have no choice but to resign from managing the account. As much as clients want to have peace of mind with their investments, we at Markowski Investments want the same thing. If it happens to be a minor diversion off our path that we believe is most prudent, but is something that we can ultimately live with, we will ask the client to sign off on their choices.

One of our founding fathers Thomas Paine wrote on December 23, 1776...

These are the times that try men's souls. The summer soldier and the sunshine patriot will, in this crisis, shrink from the service of their country; but he that stands by it now, deserves the love and thanks of man and woman. Tyranny, like hell, is not easily conquered; yet we have this consolation with us, that the harder the conflict, the more glorious the triumph. What we obtain too cheap, we esteem too lightly: it is dearness only that gives everything its value.

Thomas Paine talks about one of the undeniable truths of life that I reiterate almost weekly on the *Watchdog on Wall Street Radio Show*. Everything that has meaning, worth and value involves work, time and effort. With the incredible volatility in the markets over the past 18 months, there is no doubt that it has been trying on all long-term investors souls.

Things move without any rhyme or reason, as soon you think you have it all figured out, everything changes. Honestly, I do not have a clue when the insanity will pass, next week, next month, next year, who knows? What I do know, like all other bear markets/crisis, is that it will. The winners once again, will be the ones that stood by their sound long-term financial plan, despite all the static, noise and naysayers.

I have seen this movie before and know how it ends.