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PORTFOLIO WATCH

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Fee FO Only®

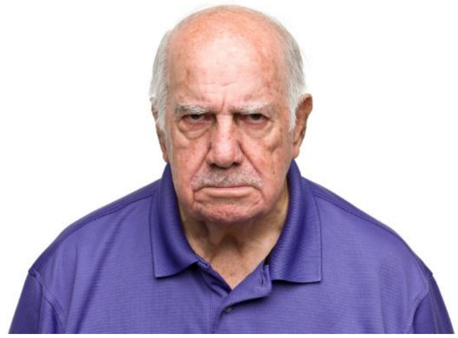
Grumpy Old Man…Who, me?

On Sept 4 (actually it was still Sept 3 in Hawaii) I became married to a grandmother. Our daughter had a 6lb 3oz girl for those who like stats. Over the last couple of weeks everyone seems to want to know, "So, are you feeling older?" I'm not used to the idea of being a grandfather yet, so my first thought is that maybe they noticed all the new facial hair, assuming of course that my nose and ears are considered part of my face. Or maybe it's the fact that I make noises like a Yeti with a head cold every time I get up from a chair or start going down a flight of stairs. If you've never heard a Yeti with a head cold, they sound a lot like older humans with sore backs and lots of ear hair. No, I don't feel older because I now have a grandchild. I feel older because…well, I'm getting old.

Selected Grumpiness

One of the things I've noticed as I get older is that my DGAS list keeps getting longer. These are things that I just Don't Give A S… that I don't let bother me anymore. This is good. However, there are some things in the financial world that tend to bother me more and more, and this is what causes me to start feeling grumpy. I have to always pay attention to whether it's a justified grumpiness, or a "hey you kids, get off the grass!" type of grumpiness, but here are some of the things that bother me.

Financial News – with rare exceptions, anything you hear on a financial "news" program and much of what you read is designed for either entertainment or subtle advertising. Realistically, there is very little that can happen on any one day that will have a significant impact on your long-term financial objectives, so financial news must be made to sound more dangerous or urgent in order to hold people's attention. This often leads to panic, irrational



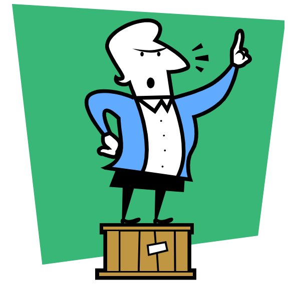
decisions, and unanswerable questions like "where do you think the market is going to go next?"

Authoritative but incorrect articles – I need to deal with these all the time. Articles are designed to get you to read them, not to build your wealth. And so they tend to spout all kinds of crap that is hopefully provocative enough to grab your attention. Negative articles that talk about the "dangers of this" and the "failures of that" tend to do a better job at attention-getting, but here again the result is fear and often financial damage to investors.

Lastly, because it's all I have room for, are "experts" or advisors who criticize and outright bash any strategy or investment other than their own. These people will often use research or studies with cherry-picked data to support a pre-determined conclusion, or use arguments that sound good (e.g. low cost, simplicity, historical average) but often tend to fall apart in the face of logic. In my view, they have abandoned learning and are just focused on justification.

Common Theme

The common theme that runs through these things that make me grumpy is that they ultimately hurt people who are just trying to make it to retirement (or stay retired). Dealing with peoples' savings in any capacity is a serious thing, and yet the vast majority of the financial world is geared more toward entertainment, advertising, and justifying existence than being a true caretaker of investors' money. At times it makes me angry, but then I look at a picture of my granddaughter blowing bubbles out of her nose and I just think, "awwwww."



Market Comments

It's baaaack! Volatility seemed to take a summer vacation, but it will never stay away forever. It pulled back into the driveway and put its work shoes on as soon as August was done, and somehow that feels more "normal." With all the political questions, slow economic growth and missed earnings estimates, an entire summer of the market grinding slowly higher just didn't seem right. All fixed now, though. We seem to be back to the condition where bad economic data means the Fed will continue loaning money for free, so the market goes up. Then some member of the Fed wonders out-loud just how long interest rates can remain at essentially zero without causing long-term damage, and the market sells off. Yep, back to normal.

If we step back for a moment, let's look at where we're at from an investing standpoint, with the assumption that the goal of investing is to make money, and it would help if we do that within our lifetime. The market has been hitting all-time highs in August while economic growth is under 2%. Long-term investors have been rewarded with ~8% average returns from stocks over the last 50 years or so…provided you started at a low point, and about 50 years ago. But we're not at a low point, we're close to all-time highs. And economic growth is anemic. And interest rates are at zero, meaning that the flow of money is about as high as it can get. And we have two elderly people who at least half of the country can't stand running for president. If we were able to jump 10 years into the future and look backwards, I highly doubt that those 10 years would keep up with the long-term average return for stocks, and I can guarantee the bond market will not keep up with its historical average. So do we just wait until the market falls again? What if it doesn't? What if it just treads water for years, like it's done many times before?

The answer to this is to look beyond just simple stock funds. I think that it's now more important than ever to have as many different types of investments that can all achieve a high single-digit return, with stocks being just one of several. When starting from a high point, long-term investing is no guarantee that you will get a reasonable return, or at least one that's worth the risk. With the current state of stocks, "long-term" may well end up being longer than your lifetime.