

A Word To The Wise

*A wise old owl sat on an oak;
The more he saw the less he spoke;
The less he spoke the more he heard;
Why aren't we like that wise old bird?*
—Unknown

\$656 million dollars. The sum is staggering, and had only one ticket matched all numbers, it would have been the single largest individual lottery payout ever. Whether you purchased a ticket or not, chances are at some point you asked yourself, "What would I do with that kind of money?" From paying off debt, to taking care of extended family, to generically saving the world, the most common answers to that question tell us that so many of us believe

that money will solve all our problems and, in essence, bring us happiness.

However, the media "air waves" were flooded with cautionary tales from past lottery winners who spoke of destroyed finances, families, and lives. In their collective tales lies some true wisdom that we all can recognize.

Wisdom, however, is an extremely elusive concept. Some say it is common sense and good judgment, some say it is the collection of one's knowledge or the sum of learning through the ages, and still others say it is the ability to discern what is true or right. Interestingly enough, some even believe that



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wisdom is to always make the right choices, which, in turn, brings pure happiness. We know that it is not merely knowledge, nor is it simply knowing what to do in a given situation. We also know that it comes at a price—sometimes time, experience, sacrifice, or even failure. So even though we struggle to put our fingers on how to define it, research with children as young as 6 years old has shown that we humans innately know wisdom when we see it.

In his book, *In the Ever After*, Allan Chinen records a fable out of Burma about an old man, his beautiful daughter, and her handsome young husband. The newly married young couple was very happy except for one thing, the husband's obsession with alchemy. His pursuit of creating gold took all his time and money.

Struggling to buy food and not knowing what else to do, the young woman went to her father for help. He called his son-in-law in and surprised him by telling him that he also had been an alchemist in his younger days and he would help the younger man complete his work.

The old man reviewed the young man's experiments and concluded that the only ingredient standing between him and success was a large quantity of the silver powder that grows on banana leaves. The young man knew that it would take hundreds of banana plants to get the quantity needed, but he was determined to complete his quest for gold. He purchased land, planted and tended the plants, and when the fruit produced, he collected the silver powder. After several years, he finally had the powder he needed.

Telling his father-in-law that he finally had the magic powder, the old man celebrated with him, but then asked him to bring his wife to complete the process. Confused, he did what was asked. When she arrived, the old man asked his daughter

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what she had done with the fruit while her husband collected the dust. She told him that she had sold it to earn the family's living. He asked her if she had saved anything. When she said yes, he asked her to go get it.

When she returned, she had several bags filled with gold coins. The old man took the bags and poured the coins onto the dirt floor. Then, pointing to the dirt and coins, he said to his son-in-law, "See, you have changed base elements into gold!" Stunned, the young man immediately saw the old man's wisdom and the young couple prospered from that day forward.

"Happy is anyone who becomes wise – who comes to have understanding. There is more profit in it than there is in silver; it is worth more to you than gold. Wisdom is more valuable than jewels; nothing you could want can compare with it."
—Solomon

So while we recognize wisdom, and its price, we must also recognize that wisdom, true wisdom, demands action. It is not enough to know the right thing to do, we must also do it. It is not enough to have acquired wisdom for ourselves alone, we must share it with others. Wisdom is a part of our legacy, that when embraced and passed on, allows us, and those who follow after us, to live Confidently, Fully, and Purposefully.

MARKET SENSE

Too Far, Too Fast?

There is an old trader adage that loosely says “the market normally disappoints the maximum number of investors over any short period of time.” The last year is a vivid example of this classic saying. After a summer and autumn when many investors became convinced that the global economy was headed back to the credit crisis environment of 2007-2009, things improved dramatically during the 4th quarter and we have now seen two consecutive quarters of ‘risk-on’ investing and substantial gains in most equity markets.

This move has propelled the US, and several other markets, to new recovery highs. In our January 2012 newsletter we emphasized that, “the possibility that the tide has turned in Europe is real and if policy makers globally continue to push for new rounds of monetary stimulus, we believe a renewed move higher in equity prices could be ahead.” The reduction in what we have repeatedly called the ‘European tail risk’ propelled the market higher last quarter, as can be seen by the results in the accompanying table. Of note though, long-term investors remain in short-supply as the bulk of the market is driven by ongoing swings between risk-on and risk-off attitudes. The market in the first quarter saw lower quality stocks booming and high quality stocks underperforming, which was in some ways just the opposite of 2011.

MARKET UPDATE

If we widen the lens and look over a slightly longer period, the month of March represented the third

anniversary of the beginning of the current bull market. During this time period the market has more than doubled. In fact, as of the end of the first quarter, the S&P 500, including reinvested dividends, stood at the identical level as the all-time market high registered in October 2007. The lesson in this is clear, for most of the last three years it was very difficult to buy, or even hold, an equity portfolio given the volatile and uncertain macro backdrop. But investors that did have the mental ability to look past the current turbulence and maintain a long-term focus have recovered all interim losses. Unfortunately investor behavior shows that on average this has not occurred. On a monthly basis, individual investors have added to equity holdings less than five times during this three year period and on average have taken nearly \$10 billion per month out of the market. This doesn't even account for the huge sums of money that were withdrawn during 2008 before the market troughed. Nick Murray who is an author and advisor to the financial profession recently wrote that, “the dominant determinant of

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real-life, long-term investment outcomes is not investment performance; it is investor behavior." The great investor himself, Benjamin Graham was even more succinct in saying, "The Investor's chief problem - and even worst enemy - is likely to be himself." It is somewhat self-serving, but we think this is the biggest advantage to having a professional advisor. We haven't seen the data, but we are convinced that the proportion of investors with professional help that have recovered their losses is higher than for those that have gone it alone.

As we move into the second quarter we believe the markets have begun to price in a more optimistic scenario. The markets have made up a lot of territory in a short period of time and a pause or mild contraction would seem to match historic experience. However, we also acknowledge that those investors who remain underweighted to equities relative to their long-term plan may feel the market is running away from them. This could continue to push the market higher as institutional investors and hedge funds rotate back and become more aggressive in adding to equities.

We did increase equity exposure in most client portfolios in early February, which aided performance during the quarter. This decision was based on our view that the LTRO program, the European Central Bank's financing program, reduced the risk of a near term credit crisis. Market based indicators, notably interest rates on bonds, indicated that the program marked a meaningful policy shift. During the upcoming quarter the market could be spooked by additional concerns in Europe (see below) with elections in France and Greece imminent and economic data looking rather bleak. This, combined with normal seasonal weakness, is what is driving our near-term caution. However, depending on the significance of the pullback and incoming data we may use a pull-

back as an opportunity to add slightly to our US and Global equity exposures.

ECONOMIC OVERVIEW

Recent data in the U.S. has been mildly positive, and certainly ahead of expectations. The ongoing, albeit sluggish, growth seems to have taken the risk of a near-term recession off the table. Meanwhile, ongoing improvement in the employment market, a strong recovery in manufacturing, and a bottom in housing construction could all work to create a sustainable recovery. The biggest domestic threat continues to be politics. With significant uncertainty at year-end revolving around the 'Bush tax cut' expiration, another round of debt ceiling negotiations, and uncertainty around medical and military spending, investors may get pressured into taking a wait and see approach.

The biggest concerns seem to be lurking outside the US, with China and Europe continuing to be the largest risks. These were the core of the investment team research and travel schedules in the first quarter. An extensive trip to Europe by two members of our team focused on the risks and outcomes likely in the Euro zone. We came away with mildly positive feelings. The strong opinion was that the political structure in Europe is highly convicted to support the 50 year Euro project and that although departures of some smaller countries

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<i>S&P 500</i>	12.6	8.5
<i>Dow Jones Industrials</i>	8.8	10.2
<i>Russell 2000 (U.S. Small Company)</i>	12.4	-0.2
<i>MSCI EAFE (International)</i>	10.9	-5.8
<i>Dow Jones - UBS Commodity Index</i>	0.9	-16.3
<i>BarCap U.S. Aggregate (Taxable Bond)</i>	0.3	7.7
<i>BarCap 5 Year Muni (Tax-Free Bonds)</i>	0.6	6.9



remain possible, the core countries are almost certain to remain together. The more aggressive involvement of the European Central Bank since November has dramatically changed opinions and sentiment. As one investor stated, "we now know that the ECB will act similar to the Federal Reserve, essentially doing whatever is needed to help stabilize the banking system." So actions taken have served to buy time. But recent reports from policymakers show that they realize the crisis is not over. The tough decisions and structural reform must now come in order to keep the crisis at bay and eventually return to a normal functioning economy. With conventional wisdom now recognizing that Greece and Portugal do not present a systemic issue to the Euro, attention has now turned to Spain. With alarmingly high unemployment, a contracting economy, tough budget cuts, and undercapitalized banks we suspect it will take up much of the media attention during the next few months. With enhanced crisis mechanisms in place, it is likely the Euro zone countries can handle Spain and its financing needs, but Italy remains the wildcard. The size of its economy and debt markets remains likely too big to save if Italy needs a full bailout. We continue to watch that market closely and, to date, important reforms are progressing but much work remains.

The other hot spot is China and the major transition that country's economy is undergoing.

In a recent commentary written after the year's China Development Forum, Martin Wolf with the Financial Times, wrote that "China is entering upon a difficult transition to both lower growth and a different pattern of growth....it is likely to be a political as well as an economic transition." Global investors all seem to agree on this transition, but the debate seems focused on whether the transition will go relatively smoothly or if a 'hard-landing' will result during the adjustment. During the quarter our investment team also had a west coast tour and meetings with several of our Asian focused managers. There remains much uncertainty around this outcome, but our best contacts do believe that the policymakers are managing the process well and are likely to orchestrate a relatively smooth transition. There remain several policy levers that can be pulled in China, and they have only just begun to ease within the credit markets. In a recent meeting with our team, Martin Barnes - editor at Bank Credit Analyst - told us that he believes if the troubles on the ground are as dire as many of the stories being written indicate, that policymakers would be doing much more. Additionally, Mr. Barnes stated that China's economic outcome should be clearer by the end of summer. Housing in China has been correcting since last summer, and historically when a housing correction turns into a broader economic and credit event it happens within a year.

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CURRENT POSITIONING

We continue to believe this is one of the hardest environments for managing capital in many decades. In summarizing his views after attending a conference on global investing risk in Paris, David Kotok from Cumberland Advisors wrote, "my takeaway, after twenty research papers and speeches from world-renowned experts, remains the same...We do not know how this process will end. We have never been in a place where the major central banks of the world have tripled the size of their balance sheets and have driven the short-term interest rate to near zero. We are in uncharted waters. We do not know where the rocks and shoals lie." Another great investor of our time, Bob Rodriguez recently said, "There are unintended consequences occurring right now, whether it is in pension plans, insurance companies, banks or managed money. At 2%, dividend yields look attractive versus a 1.9% 10-year bond yield. But I would argue that the policies of the Fed will create unintended consequences that are not positive."

If we take a step back and view the maximum big picture, we must recognize that we are in an economic period that continues to have very significant, unknown, and wildly dispersed resolutions. This is critical in understanding how we approach the current portfolio construction process. At the core of our thinking, we believe the market remains in a long-term sideways move. The deleveraging process has started in the private sector, but is only just beginning at the government level. In the last 12 years the world has witnessed two giant investment bubbles pop - the technology fueled equity bubble early in the last decade and the housing fueled real-estate bubble of five years ago. However, we suspect there is one more adjustment that remains in front of us before the world is truly rebalanced. This one involves capital flows between countries, sovereign debt,

central bank operations, and currency markets. The way these imbalances correct and the timing are unknowable but until they are complete we must remain open to holding a broadly diversified portfolio and be ready to shift between offense and defense in a relatively nimble manner.

For the last few years we have focused on four themes within our portfolios. We thought you might want us to review these themes and discuss a few subtle shifts that are occurring.

- **FIXED INCOME** - In our opinion, the entire role of fixed income portfolios is shifting. Historically, fixed income has served as a diversification tool in a portfolio, often performing well when equities ran into trouble. However, much of this was based on the fact that government bonds were typically priced to provide a positive return of 2 or 3% above inflation. Today, this cushion has disappeared and government bonds actually yield below inflation - meaning held to maturity they will more than likely lose purchasing power. As a result of this re-pricing, bonds have limited appeal in a portfolio for diversification unless a deflationary spiral occurs. Investors continue to be enamored with the perceived safety of bonds and flows into bond funds have remained very high, which is likely to support pricing for now. Although our fixed income allocations are near their target levels in aggregate, we currently have reduced core bond holdings and increased short-term bonds, some with higher levels of credit risk in order to maximize income. In our view, there is very little attraction to traditional fixed income beyond the short-term stability and liquidity they provide (and for this reason they remain important for clients in withdrawal mode).
- **DOMESTIC EQUITY** - Although they have done well recently, US stocks remain one of the

more attractive assets worldwide. We have been becoming more and more convinced in the *American Manufacturing Renaissance* thesis which is based on the idea that, due to global wage shifts, energy costs, logistical challenges, and geopolitical concerns, the trend of moving manufacturing offshore is slowly reversing. The huge relative advantage in natural gas prices is providing incentive for many large manufacturing projects to be located domestically. Our holdings remain focused on larger, well-financed companies that are market leaders. For income oriented clients we have also been utilizing managers that are focused on dividends and dividend growth.

- **INTERNATIONAL EQUITY** - outside the U.S. our theme for a long-time has been 'east over west' meaning a concentration on the global relative growth in Asian economies. As we mentioned above we continue to believe the most likely scenario is a soft-landing in China. However, the risks are higher than they have been in some time and the relative attractiveness of other global markets has increased. For example, the Eurofirst 300 index currently has a PE under 10 based on 2012 earnings and spots a yield of around 5%. Based on valuation levels, we have been increasing our weight to other developed economies, namely European, within the portfolios.
- **REAL ASSETS** - We continue to believe we are in a long-term bull market for real assets such as commodities and energy equities. As long as central banks continue to debase paper currencies and until interest rates rise to more normal levels, we think real assets provide the best diversification within portfolios. That said, they can perform erratically over periods of time as they have done recently. The current attention on China has caused real asset values to underperform, but we believe this is a short-term

constraint. We have made some shifts within this theme over the past few quarters with a move toward more conservative managers and the addition of global infrastructure assets.

CONCLUSION

In an environment of uncertainty and volatility, a focus on core values remains as important as ever. As a refresher, the five core tenants of SignatureFD's strategy are as follows. First, a goals-based approach that seeks to accomplish each individual's financial plan. Second, a growth-oriented approach focused on 'ownership' assets (i.e. stocks.) balanced with safety and yield to meet cash flow needs. Third, spread risk by holding a diversified portfolio of assets that react differently to varying economic environments. Fourth, we focus on money managers that follow fundamental, value-oriented processes. Finally, constantly monitor risk management, and look to avoid permanent loss of capital. Having a portfolio different than the market means you may be out of sync for periods of time, but the critical goals of avoiding permanent loss of capital and long-term compounding at a rate higher than inflation should dictate decision making.

We don't purport to have all the answers, and we would argue that given the unique nature of today's financial system, no one has good clarity on what the next few years may hold. However, we can report that we remain ever vigilant in monitoring the horizon for risks, adapting our portfolios to the changes we see, and looking to seize every opportunity we get to make prudent, long-term investments, while attempting to simultaneously protect your portfolio from permanent losses of capital and the creeping diminution of value from inflation over time. As always, please contact us with additional questions and thoughts you may have.

SignatureFD Brief

SignatureFD is proud to recognize both Harlan Grasier and Jamie McCusker for being named to sit on the Financial Planning Association of Georgia's 2012 Board of Directors. Harlan is the Membership Chair and Jamie is the NexGen Chair. Congratulations to both Harlan and Jamie!

David Fisher was selected to attend the fourth annual Barron's Winner's Circle Top Independent Advisors Summit. This conference brings together a select group of 500 advisors representing the elite independent advisor performers. Congratulations to David!

SignatureFD & Frazier & Deeter spoke at a reception for the "Women Alone Together" group about financial planning issues. The reception was held at the Agnes Scott campus and saw over 50 women attend.

As part of our on-going commitment to social responsibility, **SignatureFD** joined other businesses to support **Skyland Trail's** third annual Spring Luncheon & Fashion Show fundraising event. Skyland Trail is a nationally recognized leader in innovative treatment for mental illness.

SignatureFD was a proud sponsor of the **Children Without a Voice** third annual golf fundraiser. Children Without a Voice USA is dedicated to raising awareness and preventing crimes against children, child abuse and neglect through advocacy and education.

To celebrate their 100th anniversary, the **Girl Scouts of America** hosted a "green tie" event. SignatureFD was a patron sponsor of this special evening. We appreciate the opportunity to support an organization dedicated to building girls of courage, confidence, and character, who make the world a better place.

SIGNATUREFD

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SPOTLIGHT



Jennifer C. Thompson
Planning Associate

Jennifer joined SignatureFD in February 2012 as a Planning Associate. Jennifer is actively involved in various groups throughout the community, such as United Way of Metro Atlanta. Jennifer is originally from Orlando, Florida and currently resides in Virginia Highlands.

Jennifer is a graduate of Boston College where she earned a Bachelor of Science in Business Administration with a concentration in Accounting, and spent a semester abroad studying in Seville, Spain. After college, Jennifer worked for a non-profit for a year, ACCION USA, which specialized in micro-lending. After working for the non-profit, Jennifer went back to school and got her Master's in Professional Accountancy from Georgia State University. Following her Master's program, she worked for Ernst and Young in their Assurance practice, specializing in consumer products companies, and obtained her license to be a Certified Public Accountant.

When I'm not working: I enjoy traveling with friends and family and being active.

Favorite Movie: *Crash*

Favorite book: *The Alchemist*

First Car: Infiniti QX4

First Job: Intern at the corporate office for Tammy Taylor Nail products

Next Big Trip I'd Like to Take: New Zealand

Executive I admire: Truett Cathy