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COMMUNICATIONS FROM YOUR FINANCIAL COACH

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**My last newsletter generated a great response from my readers...
both pro and con. The one common request, though, was
to provide a bit more insight into my approach to the market that we
are now experiencing.
My answer is simple.....**

THE MARKET IS NOT BROKEN...NOR IS DIVERSIFICATION PASSE.

Up until September of last year I may have used the word 'trillion' perhaps a half-dozen times in my life...the most common usage coming when I tried to explain the actual distance of a light-year (the distance light travels in outer space in one year) to my children (about 6 trillion miles).

Now it seems I use the word 'trillion' daily...almost nonchalantly. And that scares me.

A trillion dollars to shore up the banking system. A trillion dollars to stimulate the economy. A trillion dollars to finish out a war. Pretty soon we will be talking serious money!

Meanwhile the stock market seems very stubborn and media pundits are telling us that we should be worried...so we dutifully are. But does that mean that everything about the economy is broken? Absolutely not!

The stock market is doing exactly what it is designed to do: React to the supply and demand of the common share price of companies. Right now that demand is down considerably. But does that mean that the market is broken or that it is down permanently? Perhaps this quote from David Smick, a global financial strategist writing in Worth Magazine (Dec/Jan 2009), can shed some light on this belief:

The problem is not that the world lacks money, but that the world's money is sitting on the sidelines. More than \$6 trillion is sitting in idle global money market funds alone. Capital from sovereign wealth, hedge and private equity funds will stream back to the US once we seem headed out of a recession. But the holders of this capital will want to know where our financial system is headed. Will we try a fruitless attempt to return to the horse-and-buggy days of finance? Or will we apply surgically precise reforms to fix the current system? Most important, will the funding of entrepreneurial risk-taking and innovation continue?

If our leadership thinks boldly and creatively in devising a game plan of reform, global capital will surge into the US economy.

Which brings us to our present state of affairs: How to address this investing environment? An article about how very rich investors acted like lemurs when being awed by the persona of "Ponzi-King" Bernard Madoff simply stated that "the real tragedy is that if investors had followed some basic rules of **prudent investing** (my emphasis), these investments would never have been made." (Wealth Manager, Feb 2009)

With that said, let me reiterate my definition of prudent investing:

The very heart of my investment philosophy is that my advice is based on scientific research...not opinions. Strict adherence to that principle has served my clients well. I focus on the only thing that my clients and I can control: RISK. I do that by recommending globally diversified portfolios that provide the greatest opportunity of achieving their financial goals without enduring more risk than they have the ability, willingness or need to take. By rebalancing quarterly, the portfolios are taking advantage of the low prices of the market.

Scientific research also leads one to conclude that a prudent strategy should only attempt to capture the returns markets provide. While recognizing this basically means giving up the grand slam of greatly outperforming the market, it also means avoiding the risk of greatly under-performing the market – the far greater likelihood... despite what present circumstances may seem.

Let me conclude with a few words from one of the highest regarded...but perhaps least known ...money managers operating today. He is David Swensen and he is the money manager for Yale University's \$23 billion endowment fund. When he became Yale's chief investment officer in 1985 the fund had just \$1.3 billion. Today it is the largest endowment fund of any university and doles out more for university needs and financial aid annually than the fund initially had when Mr. Swensen started working for the school. From an interview in Worth Magazine (Dec/Jan 2009):

The most important distinction in the financial markets would be between those who are equipped to make high-quality active management decisions and those who aren't. And the group of investors that can make high-quality active management decisions is vanishingly small. It's a handful of institutions.

[And yet there is a huge cottage industry of do-it-yourself investing websites, magazines, newsletters and TV shows] that people will pursue without adequate resources and without the necessary education and the necessary time to make good active management decisions. They're going to get annihilated.

Jim Cramer (host of CNBC's Mad Money) is a charlatan. He turns the serious issue of personal financial security into a complete joke. There is nothing that comes out of James Cramer's mouth that allows people to make intelligent decisions.

The only way to sensibly deal with markets is to have a thoughtful long-term plan, and thoughtful long-term plans don't involve radical moves, and certainly not selling things that have gone down.

A lot of this is really simple: You want to buy low and sell high. Engage in sensible rebalancing of a well-diversified portfolio and it causes you to buy low and sell high.

The market is not broken. It is going through one of its cycles...yes one of its more pronounced cycles...that is still within the range of experience (see the last issue of my newsletter and the chart compiled by Yale University).

Diversification is still the safest way of protecting any investor from the extremes of any market cycle. Investing basics have not changed. This particular cycle, unfortunately, will need government intervention to correct corporate excesses and misdeeds, but this too will eventually translate into a viable market with much more understandable and acceptable returns.

Wealth Bridge Advisory Services will stand by its philosophy through these difficult times and is willing to answer any concerns that you may have.

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