

Nick Murray

INTERACTIVE

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To the Potential Subscriber:

Nick Murray Interactive, now entering its ninth year, is intended to intervene meaningfully and positively in the career of a certain kind of personal financial advisor. Its audience is the men and women who strive to build and maintain an exceptionally successful practice in the context of a deeply satisfying life, without ethical compromise, and without significant stress.

NMI actually takes the form of two separate but complementary resources:

- **An online newsletter, about eight pages in length, published monthly.** This contains essays—not archived anywhere else—on behavioral investment advice, practical economics, market perspectives, practice management and financial planning. The newsletter also features detailed recommendations of worthwhile books, speeches and articles. **The newest feature of the newsletter is, most months, a “Client’s Corner” essay which subscribers may reprint in their own newsletters, or otherwise transmit to their clients as they see fit.** Finally, we reprint (anonymously) selected Q&A exchanges between subscribers and your editor, pursuant to the second aspect of this resource’s mission:
- **A situational “spot coaching” clinic.** Subscribers may e-mail me with specific issues they’re dealing with in prospecting, client relationships, economic and market conditions, and objections handling. As time permits, I’ll respond directly via e-mail, usually within 48 hours.

In addition, of course, the entire archive of NMI is available to subscribers online—more than 500 pages of material.

NMI takes as its particular mission to arm subscribers with reasoned rebuttals to the apocalypse du jour, the current events situation/objection which is most frightening to clients at any given time. **Especially through the worst months of the 2008 bear market, I believe we’ve been particularly effective in helping subscribers maintain their own—and thus their clients’—long-term perspective.**

The specific value proposition of NMI is quite simple: a subscriber should find in each and every monthly issue at least one idea, fact, objection rebuttal, script or reading suggestion **which returns the entire year’s subscription cost.**

In 2008, I made a decision to stop writing my monthly essay in *Financial Advisor* magazine, **for the express purpose of reserving all my best periodical ideas and writing for the subscribers of NMI.** More than ever, as 2009 begins, I believe this newsletter contains the best work I’ve ever done. I love producing NMI for its rapidly-growing roster of subscribers, and I’d welcome the opportunity to do so for you, too.

Nick Murray

“Cash combined with courage in a crisis is priceless”
—Warren Buffett

Recession: A Natural History

FROM 11/08 ISSUE

The long-held (and correct) view of this newsletter—right up until the market’s collapse from mid-September on—was that the credit crisis was essentially a financial event, and that the broad economy, housing excepted, had yet to hear of it. Strengthening real GDP growth from 4Q07 to 1Q08, and thence to 2Q08—in which the positive effects of exports completely overwhelmed the drag of housing—plainly bore this out.

As late as September 11th, the broad equity market was still holding above its July lows around 1215. Then came the Lehman bankruptcy, the forced sale of Merrill Lynch, the government seizure of the zombie WaMu, the near-death experience of Wachovia, a major money market fund breaking a buck, and the completion of a total failure of the global credit function. These disasters, in turn, were followed by the grotesque rejection of the Paulson plan’s first congressional

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Ask Nick

Q Please guide me in helping clients see the weakness of getting out of the market and into gold as a defensive move against coming inflation due to government borrowing.

A Gold is a mildly efficient long-term inflation hedge; an ounce of gold bought a good men's suit in London in 1800, then again in 1900, and in New York now. To consider making gold a significant part of a portfolio is to state that one expects, for all intents and purposes, hyperinflation. To liquidate quality equities in order to take a substantial position in gold at this juncture (gold near \$1000, S&P 500 under 800) seems to me daylight madness. It's panic, disguised as a portfolio "strategy."

A look at the last (and indeed America's only) episode when the mob institutionalized a terror of hyperinflation is instructive. In 1980, the London gold fixing topped out around \$860, with the spot price hitting a blowoff intraday high a little over \$900. The best level of the S&P that year was around 140. (The 1980–82 period being the last time equities were as screamingly undervalued as they are now.)

In other words, the nominal price of gold at \$1000 is a bit less than 20% higher than it was in 1980, 29 years ago. (I'm guessing the inflation-adjusted price of an ounce of gold is around \$400). The S&P at 750 is five

times higher than it was then—*ignoring dividends*—and as recently as 2007, it was ten times higher.

My guess is that something like this is what's going to happen to the new gold bugs, especially those who finance their purchases of gold with the proceeds of the sale of equities. I can think of few strategies less likely to work out.

Q I am now getting questions from clients regarding the ideology of the current administration and Congress bucking up against the client's ideology and the client's concern that the current prescriptions for the economy are targeting them and the economy (adversely) specifically with the stimulus bill and money for staving off foreclosure. I understand that I can't argue with the logic of the U.S. system and its checks and balances as the client is responding from an emotional standpoint. Any thoughts on how to redirect the client to the fact that our economy has survived many congresses and presidents and that this is a distraction from their plan and long term goals?

A These and the whole panoply of "road to socialism" objections are rationalizations for panic: if the whole country's going to hell, I'm justified

in getting out. Don't bother trying to answer them. Everything people are saying (not at all unreasonably) about the statist/collectivist/interventionist turn of our politics is exactly what people said (not at all unreasonably) about FDR in the 1930s (when the Dow was 100 or less), and about Jimmy Carter in the 1970s (when the Dow was 1000 or less). What are people going to do: buy bonds? Brush these things aside; don't engage with them. Above all, don't assume the burden of proof.

Q I'm starting to have more than a couple of client situations where the folks—in withdrawal mode—have run through their two-years-living-expenses war chest, and are going to need to start drawing on their equities again. But obviously, 5%–6% a year and two years ago is perilously close to 10%–12% now, which is clearly beyond the pale. How would you suggest I counsel them?

A I'd tell them to go to 4%–4.5% of the current (or even better, trough) value of the account through the end of 2009, adjust their budget accordingly, and get some part-time work if it's necessary. Once this decision is faced, a lot of pressure will be off them (and you), and you can plan to look again at the end of next year.

"We had a bad ten years, so now we're going to have another bad ten years? I'm overwhelmed by the emptiness of that idea. The history of the market is precisely the opposite. If you have a bad ten years, you're likely to have a good next ten years."

—Jeremy Siegel, quoted in *Fortune*, November 10, 2008

Recession: A Natural History

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vote, and a complete shattering of confidence around the world. In less than a month, the S&P went to 899 on a closing basis, after a brief intraday stop around 840.

There was no way the economy was going to dodge that bullet. It is now reasonable to suppose (unless you are Nouriel Roubini, CNBC's new favorite permabear) that the economy may have begun to contract in 3Q08, is almost certainly contracting in the current quarter, and may yet do so in 1Q09. (You'd have to be either much smarter or much braver than I to hazard a guess on 2Q09, but with the world awash in liquidity and real short-term interest rates meaningfully negative, declining GDP even then sure looks like a long shot at this writing.)

(Needless to say, the specter of recession has obviously been a great relief to catastrophist journalism, which by the third week in October was going to be forced to admit fairly soon that the credit crisis had passed its trough.)

So it doesn't seem a moment too soon to trot out the NBER's chart of previous postwar recessions, for some much-needed perspective. But first, the definition: NBER defines a recession as "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales."

There have been, as you are about to see, ten such officially-sanctioned episodes since the end of World War II. (To be insufferably pedantic, another brief recession was still ongoing at war's end, and is not counted here.) The average decline in real GDP from peak to trough was about 1.7% (for perspective, in the Great Depression, real GDP declined about a third between 1929 and 1932). Beyond that, let the numbers speak for themselves:

PEAK	TROUGH	# OF MONTHS
November 1948	October 1949	11
July 1953	May 1954	10
August 1957	April 1958	8
April 1960	February 1961	10
December 1969	November 1970	11
November 1973	March 1975	16
January 1980	July 1980	6
July 1981	November 1982	16
July 1990	March 1991	8
March 2001	November 2001	8

The average, as you see, has been about ten and a half months. The two longest recessions were that occasioned by the first profound

oil shock in October 1973, and the one deliberately engineered by the great Paul Volcker in his successful effort finally to break the back of inflation.

Nor will it have escaped your notice that since the Volcker recession (blessings and peace be upon it and him), both the frequency and the length of recessions have declined meaningfully. Indeed, in the quarter century since Thanksgiving of 1982, the U.S. economy has been in recession for all of 16 months.

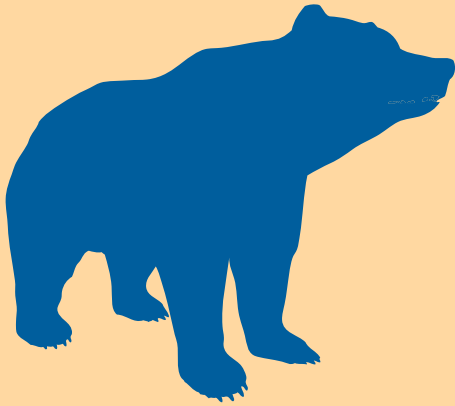
An average eleven-month, two percent decline in real GDP is no particular day at the beach, but it is hardly a reasonable observer's definition of Armageddon, either. And said reasonable observer may also be permitted to wonder—at 900 on the S&P—how much a recession may have already been priced in.

Because the plain fact is that the stock market—discounting mechanism that it is—is usually already declining even before the onset of recession, and that it historically turns up again about halfway through one. (It did precisely that in the next-to-last recession, bottoming on October 11, 1990. It failed to do so in the last recession, as it continued to reel from the shocks of 9/11, Enron, and the accounting frauds and scandals which surfaced in early 2002.)

Journalism's recession drumbeat is about to become constant and deafening, as it implies that today's economic reports—which look backward at a month's or even a quarter's economic activity—are or ought to be an indicator of what the market (which at any moment will start looking across the valley ahead, as it always does) is going to do now. ("Unemployment continued to rise again last month, ergo the stock market must be going to continue declining this month"—that sort of solipsism.)

This is what journalism always does. (*Time* still had the recession on its cover in January 1992, ten months after growth had resumed.) It is deeply invested in bad news, such that it will continue declinist reportage long past a trough. And it premises the malignant fiction that recession and stock prices are coincident, which guarantees that the investor will still be reacting to scare headlines when they are, financially speaking, yesterday's news. You must not fall victim to this "thinking," nor allow your clients to do so. *The equity market is always about tomorrow, even as journalism is always about yesterday. Mind the gap.*

Nothing in this essay should be taken as a prediction that the current recession—assuming always that we are having one—will be of average duration and/or depth. This exercise is merely intended to place a very scary concept in some objectively verifiable historical context. And to warn you that, if history is any guide, the market will probably not wait for CNBC to admit that the recession is over before taking off on the next leg of its permanent uptrend.



The Four Essential Characteristics Of All Bear Markets

FROM 10/08 ISSUE

(This material is loosely adapted from my forthcoming book, *Behavioral Investment Counseling*. Bits and pieces of this material have certainly appeared, explicitly and implicitly, in this newsletter over the years, and will not be unfamiliar to longtime readers. They are collected, synthesized and offered here in the interest of rushing some more long-term perspective to the front lines in the current pitched battle against panic.)

A bear market, as I've suggested elsewhere in this issue, is a period of time during which people who believe this time is different sell their common stocks at panic prices to people who understand that this time is never different. The very first truth of bear markets—the perception after which we must order all our other perceptions—is that all bear markets are fundamentally the same.

If and to the extent that this is true, the question then becomes: in what identifiable (and therefore predictable) ways are they all the same? What can we know about a bear market as we are going through it—despite all its apparently unique terrors—which will never fail to restore our perspective and defeat the urge to capitulate? I believe that there are four such immutable truths.

1. Bear markets are an organic, natural, constant element of a never-ending cycle. The capital markets are capable of perfectly psychotic behavior—constrained

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CLIENT'S CORNER

The Illusion of Terminal Uniqueness

FROM 3/09 ISSUE

(This essay is typical of the pieces which I make available most months to NMI subscribers for reprinting in their own newsletters, or other transmission to their own clients and prospects. It is available only to subscribers, and is otherwise protected by copyright. PLEASE NOTE THAT ITS INCLUSION IN THIS SAMPLE NEWSLETTER IS FOR ILLUSTRATIVE PURPOSES ONLY; NON-SUBSCRIBERS MAY NOT USE IT.)

It is a season of mounting hysteria at both ends of the political spectrum. The new administration invoked the specter of an irreversible economic cataclysm if its stimulus bill were not passed, while

which is by any measure steep and significant. But there is a very human tendency, when we are overtaken by shocking events like this, to see them as being terminally unique.

Try to recall the psychology which gripped our country after the terrorist atrocities of September 11, 2001. It was cited as this generation's Pearl Harbor. We were certain that this was World War III, that the next attacks might come in any form and were surely imminent, that the economy had been gravely wounded, that everything in our lives had changed, and that we would never feel safe again. Almost everything of which we were universally afraid that autumn, insofar as the homeland is concerned, quickly faded

Pundits of every persuasion ritually repeat that this is the "worst economic crisis" since the Great Depression. I beg to differ.

the right predicted, with equal fervor, a cosmic economic disaster if the bill *did* pass. The Treasury Secretary made a delayed announcement of a plan to "save" the struggling banking system, and the equity market dropped five percent. Pundits of every persuasion ritually repeat that this is "the worst economic crisis since the Great Depression."

I beg to differ.

Nothing in this little essay should be taken as an attempt to minimize the gravity of the current economic downturn,

away. (Some might say too quickly.)

Granted, an exogenous disaster like 9/11 isn't directly comparable to a great cyclical economic event such as the one through which we are passing now, nor am I presenting it as such. I cite it not for its fact pattern but for the psychology that it induced: the illusion of terminal uniqueness. When that illusion overcomes us—as it surely has now—we not only lose the ability to put events into any kind of historical context. We lose all use-

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The Four Essential Characteristics Of All Bear Markets

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only by their capacity for emotional excess—in the relatively short term (a year or two; rarely more). In the intermediate to longer term, the capital markets in general and the equity market in particular are powerless to do anything but reflect the underlying economic fundamentals.

And as long as human nature is the essential driver of all economic activity, economies will alternately cycle above and then below their long-term sustainable trendlines—overshooting their capacities in optimistic expansions, and then undershooting them in frightened contractions. The dot.com bubble is an example of the former; the great unwinding of 2000–2002 the latter. The cheap-credit-fueled real estate/mortgage bubble of 2003–2005 typifies the former, and the current unpleasantness the latter.

Human nature being what it is, any economic enterprise worth doing is worth overdoing, and the capital markets must follow not just a similar but the same cycle of euphoria and panic. We have met the enemy, as Pogo Possum said all those years ago, and he is us.

2. Bear markets are as common as dirt. We are currently struggling through the thirteenth bear market (which I and most others define as a decline in the broad market of about 20% on a closing basis) since the end of WWII. Thirteen episodes in 63 years seem to imply that they occur on an average of about one year in five (though with lamentable irregularity). At that rate, you'll see eight of them in a 40-year career of working and saving, and six more in the average two-person retirement.

One had better get used to them. Moreover, since their beginnings and endings are impossible to time, one had better develop the emotional maturity and financial discipline to remain invested through them.

3. Equities' great volatility is the reason for, and the driver of, their premium returns. "Volatility" does not, other than in the hyperbolic lexicon of catastrophist journalism, mean "down a lot in a hurry." (Nearly four years in five, equities go up a lot—quite often in a hurry—but journalism somehow never characterizes such markets as "volatile.") Rather, volatility refers to the extreme unpredictability—up and down—of equity returns in the short term.

BEAR MARKETS

The traditional definition:

"A bear market is a period of time during which common stocks are returned to their rightful owners."

The Murray corollary:

"A bear market is a period of time during which people who think this time is different sell their common stocks—at prices which will never be seen again—to people who know that this time is never different."

For example, you have not only never seen but cannot even imagine bonds providing a 20% total return in one year (through a combination of interest and price appreciation), and then posting a 20% negative return the next year. You would intuitively say that bonds just aren't that volatile, and you'd be right.

Equities do it all the bloody time. Equities *are* that volatile. You just never know what they're going to do from one period to the next. ***And the premium returns of equities are an efficient market's way of pricing in that ambiguity.*** There are no good markets and bad markets; there is one supremely efficient market. And its way of dealing with equity volatility is to demand—and get—returns which have nominally been about twice those of bonds, and—net of inflation—real equity returns that are nearly three times greater. Premium equity volatility and premium equity returns are thus two sides of the same coin.

Take care then, in moments of great stress such as the current environment occasions, not to wish away the volatility of equities, ***because you are, whether you realize it or not, wishing away the returns.***

4. A bear market is always—repeat, always—the temporary interruption of a permanent uptrend. As I write, the broad market, as denominated in the S&P, is in the neighborhood

of 1200, late in the thirteenth of these very common ends-of-the-world (for so each and every bear market is characterized by the media). The tippy-top of the market the night before the onset of the first of these thirteen cataclysms—May 29, 1946—saw the S&P close at 19.3.

Think of it, dear friends: from the peak before the first bear to something approaching the trough of the thirteenth, stock prices alone (ignoring the compounding of dividends) have risen more than 60 times in about as many years. And why? Because earnings are up 60 times—and, in this great golden age of globalizing capitalism, they are of course still going up. ***The advance is permanent; the declines are temporary. Always.***

...

But mustn't there be some way of defending capital against these horrific if transitory episodes? Must there not be some formula, some reliable strategy for taking capital out of harm's way? As a matter of fact, no.

Bear markets begin and end often, but not regularly: there is no consistent way of anticipating when an ordinary market correction will deepen into a genuine bear, nor when—having done so—the bear market decline will run its course. Peter Lynch wrote something to the effect that more money has been lost by people trying to anticipate and avoid bear markets than in all the bear markets themselves. (This is the equity market corollary of Paul Samuelson's observation that the consensus of economists had forecast nine of the last three recessions.)

Bear markets are so irregular and evanescent, and bull market advances so powerful and long-lasting, that trying to time the market becomes the ultimate fool's errand: it is a formula for long-term returns which are a fraction of the market's. Churchill famously said that democracy is the worst form of government ever formulated by man, except for all the others. Buy-and-hold is, in exactly the same sense, the worst equity investment strategy ever devised by man.

Except for all the others.

The Fateful Message of Cash

FROM 2/09 ISSUE

Let us begin with a statement of the obvious: other than as a reserve for emergencies, cash is an irrational long-term holding in the portfolio of the long-term investor.

This is true simply because, net of inflation and taxes, cash virtually always produces a negative return. (Heck, most of the time, the return is negative just due to inflation—even in non-taxable accounts.) There is only one reason that a long-term investor might be holding a large percentage of his portfolio in cash: **because he fears that the return of anything else he might own will be even more negative.** In that sense, cash is not so much an asset class as a place to hide. The goal of cash is thus not to earn a return, but to prevent “loss,” as the investor defines that term.

The problem, as always, is human nature. Specifically, the largest numbers of investors historically convert the largest percentages of their portfolios to cash (a) more or less simultaneously, and (b) at the precise wrong moments. Huge consensus verging on unanimity—together with the resultant orgy of capitulation—is not merely coincident with the climax of a market decline: it becomes itself the cause of that climax.

(Note that this is an iron law governing all investor behavior, and is by no means lim-

ited to the act of flying into cash in a panic. It is equally a phenomenon of manias: the largest number of investors converted the largest percentages of their portfolios to dot.com in 1999, to condos in 2005, and to oil in 2008, more or less simultaneously, and at the most perfectly wrong times.)

One interesting indicator of historic peaks in pessimism is the relationship between balances in money market funds and the market capitalization of the entire equity market, as encapsulated in the Wilshire 5000. There are certainly other valid measures of cash, as well as other market baskets to which cash may be scaled. But since the mid 1970s, when money funds elbowed passbook savings accounts aside as America’s preferred parking place for cash, their balances have become a good indicator of the public mood. And one may as well relate them to the entire stock market as to some carefully selected subset of the market.

The following chart does just that, and its message is quite remarkable.

As you see, the first great peak in money market fund balances scaled to the Wilshire 5000 came in September 1982, at 19%. This set the pattern, inasmuch as the market had exploded to the upside in August (from levels equal to where it had been in 1966), ending a decade and a half

of miserable equity returns and ushering in the greatest bull market of all time—one which would carry the Dow Jones Industrial Average from 1000 to 11,000 in the next 18 years. By this measure, the largest number of people had converted the largest percentage of their assets into cash at precisely the wrong moment.

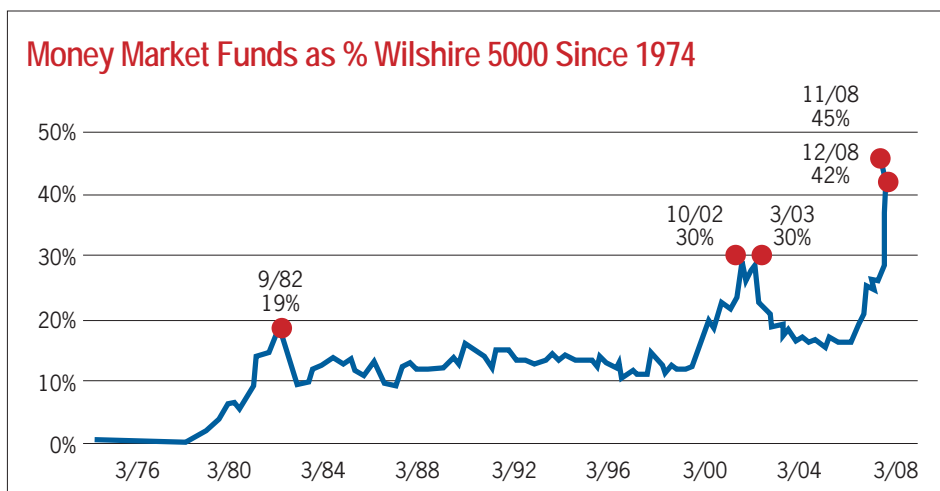
Even this accomplishment, however, was vastly overshadowed by the market’s double-bottom which occurred in October 2002 and March 2003—the climax of what was, up until then, the greatest post-war bear market. Money market fund balances as a percentage of the value of the Wilshire 5000 peaked in both months at a historically unprecedented 30%.

Which brings us to our present pass. In the great global meltdown that reached its panic low—*so far*—in November of last year, money market fund balances soared to 45% of the market cap of the Wilshire 5000. (The ratio backed off to 42%, as you see, during the ensuing Santa Claus rally.)

The operative phrase in the foregoing paragraph is, of course, “so far.” Is there anything to stop the market from making new lows if the global credit crisis worsens instead of improving, or to stop money fund balances from going to, say, 60%, of the value of the Wilshire 5000? Of course not. This analysis is at best strategic; it cannot be predictive.

That said, we may return to this chart, regarding it with the awe and wonder I believe it deserves. Imagine it, dear friends. **Almost one dollar in a money market fund for every two dollars of equity common stock in the marketplace.** (And heaven knows what enormous percentage cash is, relative to the value of stock that actually floats.) This is a unanimity of fear which has no precedent in our lifetimes. And that much fear can be right for a while, but it can never be right for long.

There is, as I suggested some months ago in this newsletter, an immense river of cash



Source: J.P. Morgan, AMG and Federal Reserve

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The Illusion of Terminal Uniqueness

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ful contact with history itself.

I suggest we go back and look at the period 1979–1982. These were the climactic years of a decade and a half of stagflation: the deadly combination of low economic growth and high inflation, a confluence which, until it happened, many economists would have said was impossible. The fact is that, between 1966 and 1982, the Consumer Price Index tripled—it's our nation's only sustained period of hyperinflation—while the Dow Jones Industrial Average went from 1000 to...1000.

By the late 1970s, inflation was actually accelerating, unemployment and interest rates were rising, incomes were declining and poverty was increasing. Then, in 1979, the wheels really started to come off. The Iranian revolution led to a tripling of oil prices, while government price controls produced interminable lines at the pump. Because oil was then a much greater factor in the economy than it is now, consumer prices shot up. Organized labor (then 20% of the American workforce) staged crippling strikes, trying to keep wages abreast of prices; there were 235 major work stoppages in 1979, involving over a million workers. In August, *Business Week* magazine ran its famous "The Death of Equities" cover story.

By 1980, the "misery index"—the sum of the inflation and unemployment rates—was 22 percent. Gold in London hit \$860 an ounce, a price it has never even remotely reached since, in real terms. (Today's nominal price of around \$1000 equates to perhaps 40% of what it was then, adjusting for inflation.). In September 1981, the yield on the benchmark 30-year Treasury bond exceeded 14.6%. Then, in 1982, unemployment peaked at 10.8%

I'll leave the story of how this unprecedented, and therefore terminally unique, and therefore insoluble crisis was solved for another day. Suffice it to say that it **was** solved, as was every economic and financial crisis before it, and since.

Which brings us to the present day, about which one may, it seems to me, honorably hold one of two essential positions. The first is that this time *is* different: unprecedented, therefore terminally unique, therefore insoluble: the end of days. The other is that—fueled by massive monetary intervention, huge fiscal stimulus, and the natural order of the business cycle—we will muddle through, as we always have in the past.

In January of this year, new car sales were at such a low level that, were they to remain there, the average car would have to be on the road for 25 years before it's replaced. In December, the rate of new single-family home construction was such that the average existing single-family home in America will have to wait 234 years to be replaced—as the economist Brian Wesbury pointed out, about the current age of Jefferson's Monticello.

You may decide that it's rather more likely that people are going to break down, at some point, and start buying new cars again, and that the automobile sales cycle will then turn up. By the same logic, you may deem it probable that people, taking advantage of today's very low mortgage interest rates, will clear off the inventory of unsold homes, and that a new construction cycle will begin at some point. You may reluctantly conclude, in sum, that the business cycle has probably not been repealed.

In a similar vein, it may have escaped your notice that Intel recently announced plans to invest seven billion dollars over the next two years to build next-generation chip manufacturing plants right here in the USA, in order to produce faster, smaller chips that consume less energy. And how do they, in these credit-straitened times, propose to finance this massive outlay? **Why, out of their own prodigious cash reserves, of course.** (In January, Intel said it had more than \$8.68 billion in cash, cash equivalents and short-term

investments as of year-end.) The financial economy, dependent as it has become on the tender mercies of government, may be in a shambles. But out on the cutting edge of the technology economy, you'd think you were on a different planet.

(And don't get me started on Moore's Law, which says that the cost of a unit of computing power falls around 50% about every two years. If my math is holding up, that means that in ten years, computing power will cost a little more than three percent of what it does now. What astonishing new applications of information technology will such a decline in costs make manifest by 2019?)

But these musings are entirely beside the point. Which is simply a statement of one man's opinion: that this isn't quite the worst economic crisis since the Great Depression. It's the worst economic crisis since 1980.

And that this crisis may one day be every bit as hard to remember as that crisis seems to be today.

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Nick Murray Interactive

EDITORIAL CONTENT

Nick Murray

NMurrayCo@aol.com

SUBSCRIPTION INQUIRIES/ISSUES

Susanna Marra

smarra@fa-mag.com

Steve Kimball

skimball@fa-mag.com

To subscribe: Call 732-450-8866, ext. 24
or visit www.nickmurrayinteractive.com

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Resources

1 I can't doubt that many of you are already reading it, but by all means treat yourself to Alice Schroeder's *The Snowball: Warren Buffett and the Business of Life* (Bantam, 960 pps. but "only" 838 of actual text, \$35). I'm relieved to report that all the major worries one had in contemplating this biography—that its "authorized" status might lead to the obscuring of Buffett's rather odd personal life; that Schroeder, a securities analyst rather than a writer, might bury us in financial detail—prove groundless.

Indeed, one is almost tempted to say that Schroeder (under the prodding of the publisher, no doubt) actually went too far in the other direction. I'm not sure, for example, that I needed to know that, at some annual celebrity-studded get-together, Buffett and the late, lamented film director Sydney Pollack always sang "The Hut Sut Song," but I would have loved to know more about how Buffett thought he could get a takeover of the dying Long-Term Capital Management's portfolio to work.

Thus, do not read this book exclusively or even primarily for the financial/analytical aspect, but for the man in full. Charlie Munger, who should know if anyone does, has remarked that as he ages Buffett seems to get sharper, smarter, even more focused and even more energetic. This is especially comforting to a reviewer who has just

turned 65, but it is also a commentary on how the profession you and I have chosen allows us to get better and smarter deep into our lives. For all these ideas and countless more, *The Snowball* is simply a must-read.

2 Also in the must-read category is Charles Ellis's massive *The Partnership: The Making of Goldman Sachs* (Penguin, 731 pps. but "only" 685 of text, \$37.95). This is a richly detailed, scrupulously researched history of one of the most enduringly successful financial firms of all time, and it simply demands to be read. As much as a true history of American and then global finance, it is the exploration of a culture, and of its "wide, deep and continuous collective determination to excel." In the end, it is that abiding commitment to excellence which the reader takes away from this important book.

3 I picked up with no little trepidation Michael Lewis's compilation of essays, op-ed pieces, book excerpts and other snippets, *Panic: The Story of Modern Financial Insanity* (Norton, 391 pps., \$27.95). Lewis is one of those guys who's so smart, and so successful, that he cannot help thinking himself much smarter than he really is. (This affliction is even now mowing down a whole generation of mortgage-backed securities traders and their clueless

superiors.) One result is that this pastiche is no "story" at all, but merely contemporary observations on four of the last five great financial and market crackups: the Crash of 1987; the Russia default/Asian Contagion 2/Long-Term Capital Management cataclysm of 1998; the dot.com bubble and its thermonuclear implosion; and the current unpleasantness up through the beginning of 2008, with the obvious limitations thereof. (He skips the great debacle of 1990-91 for reasons known only to himself, his publisher and heaven.)

And yet this book has its uses for the busy advisor, because there's a lot of good, if necessarily anecdotal, background information in it (as well as a fair amount of silliness and dross, from pinheads like Paul Krugman and Jeffrey Sachs). If you haven't had time to read—and aren't likely soon to find time to read—John Cassidy's *Dot.com*, or Roger Lowenstein's wonderful *When Genius Failed*, or even Lewis's own (quite good) *The New New Thing*, you can mine a fair amount of perspective from *Panic*. (My own favorite piece—and I freely acknowledge the unworthiness of this—is Lewis's January 1999 postmortem on LTCM, which is demonstrative of nothing more than how completely taken in Lewis was and continued to be by John Meriwether, with whom he had worked at Salomon Brothers.) Worth a good look; just pick your spots.

The Fateful Message of Cash

CONTINUED FROM PAGE 6

building up behind an earthen dam of fear. The cash is a force of nature; the fear is a human emotion. The cash must move—it cannot remain where it is, earning no return—while the emotion, like all nearly unanimous emotions, must eventually give way.

We cannot know when that will happen. (Nor, for that matter, can we be absolutely sure it hasn't already begun: at this writing,

the panic lows have held for two months, and credit spreads are narrowing around the globe.) But we can feel strongly, and with good historical reason, that the dam must give way, and that we are getting ever closer to the day when it does. **We have to move our clients and prospects out of cash, and we have to start doing so right now.**

This is not a call on the market. It is a

cry from the heart: **eschew unanimity. The mob is never right, other than momentarily. And history may yet show that it was never more wrong than in the days when it was holding a dollar in cash for every two dollars of common stock in America.**

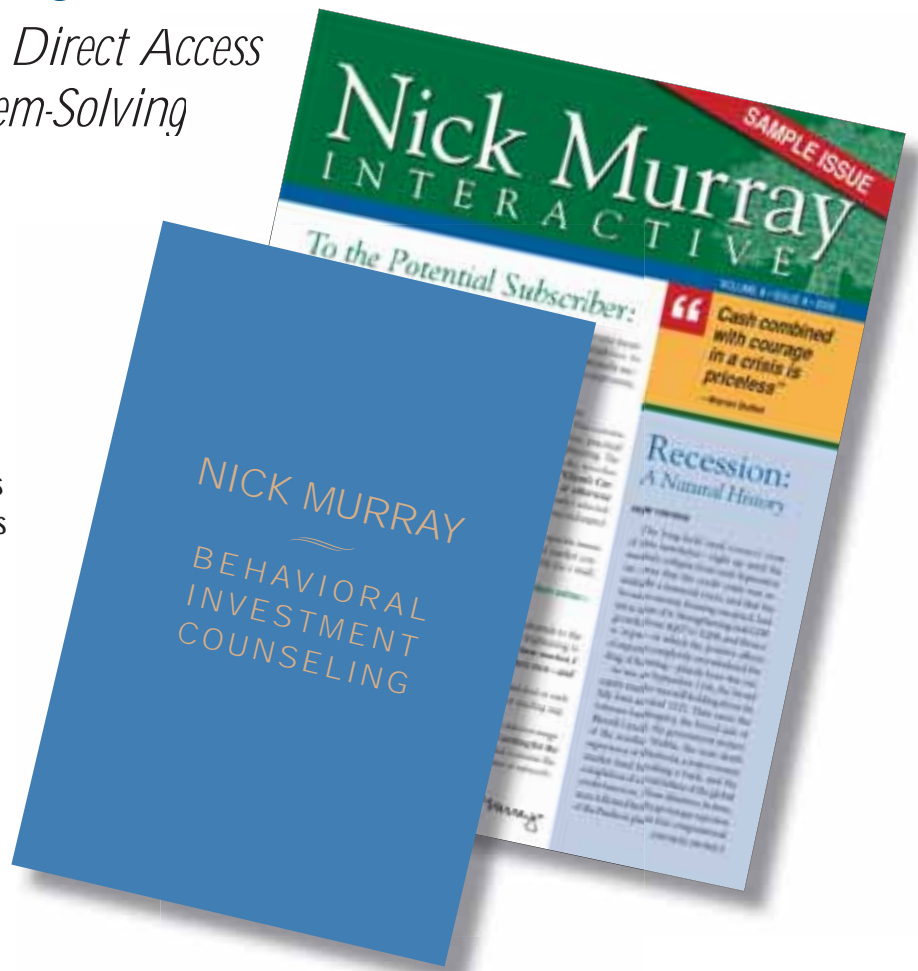
Cash is irrational. Helping people recover their rationality, and thereby moving them out of cash, is Portfolio Job One in 2009.

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