

# Nick Murray

## INTERACTIVE

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### To the Prospective Subscriber:

*Nick Murray Interactive*, now entering its tenth year of publication, intends to intervene positively and meaningfully in the career of a certain kind of personal financial advisor: the man or woman who strives 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, eight pages in length**, published on the last business day of each month. This contains essays on behavioral investment advice, practical economics, market perspectives, practice management and financial planning. Also featured are detailed recommendations of worthwhile books, articles, speeches and academic papers. **The newest feature of the newsletter is, most months, a “Client’s Corner” essay which may be accessed in pdf format and transmitted directly to clients (though not on open websites).** 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, or “spot coaching,” clinic.** Subscribers may email me with specific issues they’re dealing with in client relationships, economic and market conditions, practice management and objections handling. As time permits, I’ll respond directly via email, usually within 48 hours.

In addition to these two resources, subscribers have access to the entire archive of *NMI*, which now contains well over 500 pages of material.

*NMI* takes as its particular mission to arm subscribers with reasoned rebuttals of 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 2008-09 event, I believe we were decisively effective in helping subscribers—and thus their clients – to maintain their long-term perspective.**

More than ever, as 2010 begins, I believe *NMI* contains the best work I’ve ever done. I love producing this resource for its rapidly-growing roster of subscribers, and I’d welcome the opportunity to do so for you, too.

*Nick Murray*

### CLIENT’S CORNER

## The Progress Perspective

FROM 2/10 ISSUE

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*“(Human flight in a machine) might be evolved by the combined and continuous efforts of mathematicians in from one million to ten million years.”*

—from an article in *The New York Times*, October 9, 1903

*“We started assembly today.”*  
—from the diary of Orville Wright, October 9, 1903

The world is still emerging from a financial panic and an economic seizure

CONTINUED ON PAGE 6

“ You make most of your money in a bear market; you just don’t realize it at the time.”

—Shelby Cullom Davis



# Ask Nick

FROM 1/10 ISSUE

**Q** What is the kindest, most compassionate way to say to a prospect—when they complain of decades of investment losses, poor performance, etc.—that the problem is not with the market, but with their behavior?

**A** I don't believe there is such a statement. I'd recommend the Socratic method: don't make statements; ask questions. "Please help me understand how such a thing is possible. Three decades ago, the Dow was under 900. Two decades ago, it was under 2800. Today, it's over 10,000. So you can't be generalizing about the market; you have to be saying something about your own experience, which is apparently much worse than the market. Is that right? Do you want to talk about how that happened? Would you like me to describe to you how my way of advising people can prevent it from happening?"

**Q** A disturbing number of clients are mouthing the latest iteration of the "buy and hold doesn't work anymore" argument. This version holds that buy and hold has failed because the stock market has become so dominated by hedge funds, institutions and programmed trading strategies. My answer seems to me very lame. Can you please arm me?

**A** My pleasure. (1) The phenomena to which you refer are noise. The idea that the long-term pricing mechanism of the market could be seriously and lastingly skewed—that the market could become and remain mispriced—because of trading strategies is illogical. Another trading strategy, seeing the mispricing,

would instantly come in on the other side of the trade, and wipe out the arbitrage. Trading strategies not only don't misprice markets, they cancel each other out. The more market participants—regardless of their strategies—the more efficient markets must become over time. (2) There are only four determinants of long-term equity values. They are: earnings, cash flows, dividends, and the future expectations thereof. Everything else is noise.

FROM 7/09 ISSUE

**Q** As I get further into distribution planning with my clients that are reaching the next phase in their life, is there a particular strategy you utilize? There seem to be very many ideas and strategies surrounding this subject so I was curious as to how you plan for this in particular when we go through markets are experiencing now.

**A** As a program of general guidelines:  
(1) Put two years' living expenses in a money market fund.

(2) Put the rest in a diversified portfolio of managed and/or pooled equities.

(3) Begin withdrawing from the equities at 4.5%. Escalate this at 3% per year.

(4) At some pre-determined point—say, when the account is down 20% through a combination of market decline and withdrawals—stop the withdrawal from equities and switch to the money market fund for a year.

(5) After a year, re-assess your position in consultation with your client, with the option to continue drawing from the money market fund for a second year.

(6) Treat these as guidelines, not rules. Their main attraction is that you are always acting on a plan rather than reacting to the markets.

FROM 8/09 ISSUE

**Q** I've gotten an increasing number of retired clients who have been approached by other advisors trying to sell them annuities with guaranteed income features. In the current market environment they're getting a receptive audience. One of my clients recently transferred \$100,000 into such a product with a competing advisor even though she has virtually no shot of running out of money and had never voiced any serious concerns about risk in her portfolio. In the past I've only recommended them to clients who were either in danger of outliving their nest egg or would only wade into equities with a safety net. Of course the insurance wholesalers and staff people are preaching that we want to be the ones to tell our clients about annuities before the competition does. What's your take? Should we be playing defense by speaking with all our retired clients about them? Are you from the Moshe Milevsky school that says most retirees could use one? As always I look forward to your valued opinion.

**A** This question, which appears to be about annuities, isn't at all. It's about something much deeper, which is the issue of your client communication and control. If you have someone moving a six-figure amount to another advisor, without seeking your counsel, that person was never a client, and you inexplicably affected not to notice. I'm not prepared to say she didn't do anything wrong; what I say is that you enabled her to do what she did by never completing the relationship—by allowing it to remain in some grey twilight where the important things were left unsaid, or where she felt she could ignore them...and you. This is 100% your fault.

But what's even scarier is that you think this may be a generalized problem, and are seriously considering "playing defense" not by acting to deepen and strengthen your clients' reliance on your counsel, but by showing them a product you do not believe is right for them, as some sort of misguided competitive pre-emption. (The only ray of light in all this—and a very faint ray it is—is that you are exactly right about the applicability of annuities with "living benefits." Their proper application is to situations where the client is at significant risk of running out of money and/or is so fundamentally petrified of equity volatility that he requires the psychological support of the guarantees.) In other words, your proposed solution addresses the symptom and not the disease.

Were I you, I wouldn't embark on a campaign of running around showing people annuities, or even telling people why you don't think they need them (which will only cause them to nod sagely, pat you on the head, and then start finding out all about annuities the minute the door closes behind you). I'd start running around, all right. But I'd be running around having deep philosophical conversations with my clients. "Are you happy with what we're doing? Do you continue to understand what we're doing, and why? Are there questions or concerns you have—about anything at all—that for whatever reason you've been reluctant to raise with me? Is there anything you need, or just want, me to explain again? Do you know in your bones that what I have you doing is out of deep and abiding concern for your long-term well-being—for the maintenance of your dignity and independence in retirement?"

The risk to your practice—and I perceive it to be grave—is not the onset of "competitive" products or advisors. (I do not know anyone at the top of this profession who thinks for a moment that he or she has any competition for the minds and hearts of their clients.) It is The Great Unsaid—the things your clients are feeling that they are not comfortable telling you. Again, the bad news is that this is all your fault, but the great news is that you can fix it.

# Behaviorism Enshrined

## *The Saga of the Decade's Best Equity Mutual Fund*

In a story reported by Eleanor Laise, *The Wall Street Journal* on December 31, 2009 recounted the saga of the best performing mutual fund of the decade which ended that day. However anecdotally, it is the single most ringing validation I've ever yet seen of the core principle of all my work, and the spine of my most recent book, *Behavioral Investment Counseling*.

The winning fund was the \$3.7 billion CGM Focus Fund—I must be exquisitely careful not to mispronounce it—and according to the *WSJ*, citing research by Morningstar, it returned (through December 29) 18.2% a year for the decade just then ending. This achievement (in a flat to down market) is all the more remarkable because the said fund totally smoked the second-best performer by an astronomical 340 basis points. (The second-place finisher, if anyone cares, was Lord Abbett Micro Cap Value I, at 14.8% per year.)

But you must not chide yourself for missing it. So did literally everyone else, *including—and especially—the CGM Focus Fund's average shareholder during these ten shoot-the-lights-out years.*

For you see, dear reader, the average shareholder in the fund during the decade—based on the fund's critically important *dollar-weighted* return—managed to rack up a loss of 11% per year.

I didn't say that, friends. Morningstar did.

Lest you think this epic negative achievement mathematically impossible, let me sketch out how it might have happened...and, in point of actual fact, did. You see, in 2007—the all-time tippy, tippy top of the equity market—the CGM Focus Fund returned a blazing 80%. Whereupon "investors" poured \$2.6 billion into the fund during the ensuing year, *even as the fund went down 48%*. "Investors" had pulled out three quarters of a billion dollars by November 30, 2009. I invite you to look up the year's total net withdrawals at your leisure, should you care to; my point is made. (Calling these people "investors" is like calling unemployed people who bought \$100,000 trailers with \$105,000 NINJA mortgages "homeowners." But I digress.)

If the fate of William Miller and his Legg Mason Value Trust did not teach us for all time that performance-chasing is a virtual guarantor of substandard performance, then please, please let the CGM Focus Fund do it. Torrid performance always brings in grotesque amounts of stupid money, forcing the purchase of most of a fund's assets at the worst possible prices, and thus insuring that whatever is drawing all that hot money must underperform in the next block of time. (If you still doubt this, just watch the gold ETF.)

**There is no statistical evidence for the persistence of performance.** (Unless—as I strongly suspect but can't prove—there is...and it's perverse.) No excellent advisor allows (that is, enables) his clients to chase performance. It's professional suicide: the "client" will underperform, and blame the advisor. When you get drawn into a discussion of past performance, take your medicine now: deny categorically that it means anything predictive; recommend what you recommend because you're recommending it; and let the chips fall where they may. The only alternative is to fold, let the "client" buy the hot fund or funds he has his eye on—and get criticized to death over the next couple of years for the funds he alleges you put him into.

Through December 31, 2009, the saga of the best performing fund of the decade proves one thing, and one thing only. **The dominant determinant of real-life, long-term investment outcomes is not investment performance; it's investor behavior.**

Now, where have you heard that before?

# Resources

FROM 1/10 ISSUE

**1** I fault myself for the fact that last month's issue went to press (and my list of the top ten books of 2009 was published in *Financial Advisor*) before I'd had a chance to read Brian Wesbury's brilliant, beautiful *It's Not as Bad as You Think: Why Capitalism Trumps Fear and the Economy Will Thrive* (Wiley, 224 pps. \$24.95). I particularly regret that I didn't catch it in time to say what a great holiday gift it would have made. But, heck: give it to 'em anyway. You must have gotten awfully tired (as I admit even I did) last year, being the one optimistic voice crying in the wilderness of your clients' benighted lives. And there will be many apocalypses in the *jours* to come—lunatic deficits, resurgent inflation, wildly increased taxes, the health care boondoggle, the environmental fascism of cap and tax—against which you'll find that Brian's clear-eyed long-term optimism will prove very effective (if anything will) at inoculating your clients, and even yourself. It is far too easy to forget that democratic capitalism is a much stronger and more enduring force than collectivist statism (where is the Berlin Wall of yesteryear?). Brian Wesbury—who commands the priceless gift of writing just the way he talks—offers the most accessible, re-

freshing, insightful and even inspiring reminder which you and your clients are ever likely to see.

FROM 2/10 ISSUE

**2** I spoke at some length the other day—for the first time in quite a long time—with Darci Hemsley Brown, who has continued to deepen and expand her father Aaron Hemsley's seminal work in the psychology of prospecting avoidance, and in sound, practical remedies for self-defeating behavior. I came away from that conversation more firmly convinced than ever that Darci's ten-week behavioral coaching program (which includes both a lot of prior consultation and a year of follow-up) is the only lastingly effective program of its kind. I am generally opposed to coaching of all kinds, and the more complex and expensive the coaching program, the more impracticable I think it is. If you seriously wish to make meaningful improvements in your business, and you don't have a major prospecting effort in place that you're joyously pursuing, your goals are disconnected from your behavior. And Darci's program is the single best investment you can make in your career in 2010. (It is also, as I told her, seriously underpriced.) Darci has three school-age children, and can only coach a maximum of eight people at a time, so you may have to get in the queue. My advice

would be to get in the queue. Darci may be reached at [ahinfo@aaronhemsley.com](mailto:ahinfo@aaronhemsley.com).

FROM 2/10 ISSUE

**3** With just a couple of caveats, I can warmly recommend Gregg Easterbrook's *Sonic Boom* (Random House, 243 pps., \$26). Mr. Easterbrook's thesis is that globalization has barely begun, and that as it reorganizes and even revolutionizes the world over the next decade and beyond, it will produce wealth—and spread that wealth farther and wider—than we can yet imagine.

He tells the story of globalization through the lens of a number of different cities, beginning with Shenzhen, China—a city that did not exist thirty years ago, and now has far more inhabitants than does New York, much less London or Paris, cities that took centuries to develop. But he also refers to such old and previously-declared-dead cities like Waltham, MA (now a high-tech and venture capital hotbed) and Erie, PA, where GE now produces fuel-efficient and environmentally friendly locomotives, which the world buys as fast as the company can turn them out.

Mr. Easterbrook forcibly reminds us of many important but—in the current catastrophist environment—too easily over-

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## THE THREE GREAT LESSONS OF 2007–2009

**1** *All of life is a “black swan” event. The most decisive realities, for good and ill, come at you out of deepest left field.*

**2** *You do not know what you do not know.*

**3** *There is no such thing as a “standard” deviation.*

*Don't Tell Me Your Goals for 2010...*

# Tell Me Your Prospecting Plan

FROM 1/10 ISSUE

One of the ancillary services I offered in connection with attendance at my October 2 Behavioral Strategies Conference was a review of their 2010 business plans. And indeed, during these closing days of the old year, I'm very much involved in that process, and in the follow-up phone calls also promised.

It may be a little early to generalize from this exercise—and then again it may not—but so far, I've noticed a couple of disquieting trends. (1) The respondents have very specific goals, but very gauzy (to nonexistent) plans for reaching those goals. (2) They consistently mistake marketing for prospecting. To me, both these phenomena are symptomatic of a high degree of prospecting anxiety.

I've tended, in recent years, to assume that people who were far enough along in our profession to benefit from (and be willing to pay for) the newsletter—much less the Conference—had long since overcome whatever prospecting issues they had to deal with earlier in their careers. I no longer think that. In fact, I now think prospecting is the elephant in nearly everybody's living room.

This got me going on a book to be called *The Game of Numbers: Professional Prospecting for Financial Advisors*, which I expect to have out in early summer.

For the moment, as the new year begins, I want to call the question: exactly what do you intend to accomplish in terms of increased numbers of clients, AUM and income? *And what specific program of prospecting—number of hours on what specific days, number and kind of direct approaches—do you propose to invest in reaching those goals?*

Disabuse yourself of the notion that you can ever effect meaningful change in a personal financial advisory business without a specific, disciplined, measured and consistent prospecting effort of some kind. Moreover, know thyself: you are not going to start on January 2 a program of calling fifty estate attorneys on each of three days a week if the average number of calls of this nature you made each week in 4Q09 was zero. Trying to run an instant marathon after five years of sitting on the couch, watching college hoops and eating Ruffles, ain't gonna work. It is setting yourself up to fail. There's no crying in baseball, and there are no miracle cures in prospecting behavior.

Nor is marketing prospecting. Indeed, marketing by itself is an avoidance behavior. "I'm going to start sending all the estate attorneys in the county Nick's Client's Corner essays" is a classic example of marketing as prospecting avoidance. So is "client appreciation," as an end in itself. On the other hand, asking every single client for whom you're doing an annual review in 1Q10 for *an introduction*—not a referral, an introduction—is most as-

surely prospecting, not marketing. (Assuming always that you follow up, and make very sure the three-way introductory conversation takes place.) For that matter, saying "I'm going to send all the estate attorneys in the county Nick's Client Corner essays *and then I'm going to call and invite every darn one of them to lunch*"—well, brothers and sisters, now that's prospecting.

A prospecting approach is any direct attempt to start a conversation with another human being. Note that I said **attempt**. I am not responsible for the outcome; I'm only responsible for the behavior (the attempt) that leads to success. If I call an estate attorney, and his assistant blocks the call, that's a valid attempt. *I took the shot*. That's what counts, and that's how I keep score. (Remember always Gretzky: "One hundred percent of the shots you don't take don't go in.") *My ego is totally invested in inputs, not in outcomes*. I do not know anyone who ever became lastingly successful in this business who did not—even if only unconsciously—keep score this way.

What has always taken advisors out, I think, is keeping score by outcomes. But since the vast preponderance of all your prospecting attempts will not lead to a conversation of any kind, and since the majority of those that *do* lead to conversations will end in "no," you're not only keeping score by in terms of a variable you can't control, you're branding almost all your prospecting attempts "failures." I just don't think anyone can sustain that experience for very long. It's too painful.

I look at prospecting the way I look at any other physical exercise program. You go out one day, jog as long as you can, and stop when you can't anymore. Next day, you go out, jog just as far as you did yesterday, and stop. You do that for a week. First day of the new week, you try to increase your baseline by ten percent. If you're able to do that, see if you can sustain it for a week. And so on. By building yourself up slowly but steadily, you increase your capacity very significantly over time—and you increase the consistency of your effort exponentially—without shocking your system, injuring yourself, or slinking back to the couch in remorse and self-recrimination. You'll find that an awful lot of the process of developing healthy, consistent new prospecting behavior is just climbing down off your own back.

We'll be talking more about this in the run-up to the book's publication, hopefully by midyear—if I just write consistently for a set time and/or a set number of words each day. In the meantime, get honest with yourself. You can't go out and run a prospecting marathon today. But you can train to run a very competitive prospecting 10k by the end of 2010, if you train moderately but consistently. And always remember: the only failed prospecting approach is the one you don't make.

# The Progress Perspective

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which has few parallels in history, and none in our lifetimes. A global debt bubble metastasized in the single-family home market, and manifested as a whole new generation of mind-bogglingly complex mortgage derivatives, which turned out to be, in Warren Buffett's memorable phrase, "financial weapons of mass destruction." In response to the functional insolvency of the banking system and the total cessation of the credit function, Western governments plunged into deficits of historic proportions. No one can currently imagine how the accretion of public debt can be reversed, and hyperinflation scenarios grow like weeds in the blogosphere as gold makes new record highs (if only in nominal terms).

Even as global economic activity and equity markets continue their remarkable recoveries, this is The Great Gettin'-Up Morning of catastrophism. Equities had essentially no return in the ten years through 2009, and surely the future looks at least equally bleak. Such is the self-hypnosis of extrapolation. Such is the pathology of pessimism.

As the forgoing quotes from the very same day in 1903 suggest, pessimism always misses the key point in human development: not just the continuing miracle of technological progress, but its second derivative—the change in the rate of change.

Powered human flight offers an almost perfect paradigm for this phenomenon. On their fourth and final flight on that historic day in December 1903, the Wrights flew 852 feet in 59 seconds. In 1923, two men flew 2500 miles across the United States nonstop, from Roosevelt Field on Long Island to San Diego. Lindbergh's transatlantic solo flight came in the spring of 1927. Heinkel perfected a turbojet engine in 1939. Yeager rocketed through the sound barrier in 1947, and Crossfield

reached Mach 2 in 1953. Sputnik orbited the earth in 1957, and a man walked on the moon in 1969. Any way you graph this progress, you must be struck most forcibly by its exponent.

At any given moment, progress always appears to us linear, when it is in fact always exponential. Thus, there may very well be as much progress in the hard sciences, in information technology and in medicine in the next ten years as took place in all of human history to this point. It is just this progress—and its profound implications for economic growth and returns on equity capital—that the pessimists miss. But they would have to, because otherwise they could not persist in their pessimism.

Innovation compounds apace. Equities may have provided no net return for the ten years through 2009; this is grist for the pessimists' mill. They conveniently ignore the fact that this decade followed the greatest ten years in the history of equities. They even more studiously ignore the fact that, even as equity prices did less than nothing in the most recent decade, the dividend of the S&P 500 doubled. But even this is beside the point, which is that Moore's Law rolled over five times during this allegedly "lost" decade, such that computing power which cost a dollar at the beginning of 2000 costs three cents today.

And thereby hangs yet another tale—of flight, of technology, and of the unquenchable human spirit.

On April 13, those of us who reverence the event will celebrate—and heaven knows, that's the right verb—the fortieth anniversary of the night the Apollo 13 spacecraft, with three astronauts on board, blew up. On that night this year, I suggest we gather our families and friends, and watch Ron Howard's magisterial film *Apollo 13*.

Aside from the drama itself, look for the moment—about halfway through

the film—when the world's foremost space scientists and technologists begin working the problem of how to get those three heroes home alive *using slide rules*. Because at that point, NASA's mainframe computer is essentially fried; they have asked it for so many calculations that it can no longer respond in time to save the astronauts.

As you watch these scenes, take out your BlackBerry, iPhone, or similar device. And know that the computer embedded in it is a million times smaller, a million times cheaper, and a thousand times more powerful than all the computing power that was available to NASA the night the Apollo 13 blew up.

Over the next quarter century or so—well within the life expectancies of today's retiring baby boomer couple—this billionfold increase in computing power per dollar will happen again. As it does, information technology will solve all our most vexing problems, including but certainly not limited to energy, the environment, poverty and disease.

We realists—a term I prefer to "optimists," though they are in fact synonymous—will invest patiently and persistently in this progress. By doing so, we may enjoy long retirements full of dignity and independence, even as we endow legacies to those we love and must leave behind in the world.

Pessimists will miss it, increasing the chances that they may run out of money in retirement and die destitute and dependent upon their children—all in the illusory quest for "safety."

Welcome to 2010. Just one man's opinion, of course, and no one else is responsible for it. But: I think it's at least possible that this is the first year of the worst decade to be a pessimist in all of human history.

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# The Risk Is In Bonds

FROM 1/10 ISSUE

Inflows into bond funds have been setting records in recent months; the money is coming out of money markets and stocks. This is highly predictable. It is also—indeed, this may be a redundancy—insane.

Show me an asset class that is experiencing record net inflows—bonds in this case, and also the gold ETF, but there I go again—and I'll show you an asset class which is probably going to underperform, and perhaps underperform significantly, over the next block of time. Show me an asset class from which the public is flying, and I'll show you the next outperformer. These are axioms, not so much of investment policy as of human nature.

In a recent Client's Corner essay, I noted that massive inflows into bonds were not evidence of a reasoned investment policy decision, so much as they were a cautious edging out along the yield curve: a post-apocalyptic readiness to exit the agony of zero-return cash, but with nowhere near enough conviction to go all the way to equities. In that essay, I offered this conclusion as just one more reason to believe that the resurgence in equity values which began nearly ten months ago has nowhere nearly run its course.

What I wish to focus on in this brief note is that, as it always does, the investing lumpenproletariat is moving into the higher-risk asset class. The risk isn't in equities—not relatively, at least, and that's what we're discussing here. The risk is in bonds.

All of the phenomena that are popularly decried as the next major economic problems—unprecedented government borrowings, debasement of the currency, inflation risk and the need for the Fed to mop up all that excess liquidity before inflation flares out of control—aren't so much a commentary on the risk/reward ratio of equities as they are a statement of the inevitability of a long period of rising interest rates. Indeed, starting from zero, where else could rates go? Rising rates—and concomitantly falling bond prices—are therefore not even a question of "if." They're a question of "when."

Journalism reports that the consensus is that the Fed will start raising rates in the third quarter of 2010. (One is never sure if this "consensus" has been reached by economists or by journalists themselves, but give it the benefit of the doubt for a moment.) This suggests a number of scenarios more or less guaranteed to have all those massive bond fund inflows of this autumn significantly under water before the leaves fall again.

Assume the consensus is right: that a policy of massive monetary accommodation which has no precedent in the history of central banking will finally reverse in the third quarter. It should be clear that the markets will start pricing in higher rates—and perhaps much higher rates—well before that. Your choices, in this scenario, have narrowed down to the first and the second quarters. To a long-term investor—indeed, to anyone with an investment time horizon longer than that of a mayfly—this range of estimates of when bond

prices will swoon equates to "any minute now."

And that's assuming the consensus is right, which it hasn't been for nigh on to a year now.

The consensus has consistently, and quite spectacularly, underestimated the speed and strength of the global economic upturn. It has maintained that the recovery from the swiftest and most savage decline in economic activity in our lifetimes would be painful, gradual, and very, very grudging. The fact that there is no historical precedent for such a scenario—that in fact the prevailing historical pattern has been that of the slingshot effect—has not seemed to bother the shapers and reporters of "consensus." But neither, for that matter, have the facts.

The facts are that this has been a very powerful V-shaped global recovery just about from minute one. This is a source of literally inexpressible agony to the nattering nabobs of negativism, who

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clinging desperately to any floating snippet of bad news like Ishmael to Queequeg's coffin. Unemployment—always in the caboose of recovery—is obviously the prime example of this phenomenon. But we true connoisseurs of journalistic naysaying particularly relished the universal shrieking and rending of garments which followed the momentary downturn in housing starts in October—which was merely the coldest and wettest October in the United States since the early 1920s. But I digress.

My point is that, if and to the extent that the consensus is inferring the timing of the reversal in interest rates from its wildly behind-the-curve view of the recovery itself, then rates may well turn up, and bond prices crater, long before the third quarter. Which would make buying bonds here look like slipping past the entire Bolivian army so you could join Butch and Sundance down there in that stable.

One hopes and believes that this essay is the moral equivalent of preaching to the choir—that this newsletter's readers, eyes fixed firmly on the prize, are continuing to preach the healing and salvation which can come only from owning The Great Companies in America and The World for the long term, and indeed multigenerationally.

But just in case, be reminded of your mantra: equities...life; bonds...death. And right about now: bonds...*sudden* death.

# Resources

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looked verities. Among these are that 85% of economic growth now comes from new ideas (per the American Academy of Sciences). He also points out that in 2007, companies that were seeded by venture capitalists provided nearly ten and a half million jobs, and generated \$2.3 trillion in revenues, about equal to the GDP of France.

Remarkably for such a clear and forward-looking thinker, Mr. Easterbrook has entirely imbibed the Kool-Aid of “inequality,” and apparently thinks CEOs are overpaid paper pushers who shouldn’t make more than about a million and a half dollars a year. (Really, Mr. E? Wasn’t it a CEO who went against all the “wisdom” of Wall Street analysts and kept that locomotive plant in Erie?) But you’ll be well rewarded for getting past those odd and uncharacteristic lacunae. This book is a gem, and every advisor needs to read it.

FROM 1/10 ISSUE

**4** As a longtime reader recently observed, I virtually never review books about the more technical

aspects of financial planning. He asked why. I replied that there are two reasons: I haven’t kept up with the technical aspects, and I was never that interested in them, anyway. (I always felt that some salaried expert on my firm’s staff, or that of one of its vendors, knew the technical issues not only better than I did, but better than I wanted to.) So I was knocked out, and quite surprised to be knocked out, by Deborah Jacobs’s self-published *Estate Planning Smarts: A Practical, User-Friendly, Action-Oriented Guide* (DJWorking Unlimited, Inc., 352 pps., \$19.95). This is a book for you to own and read, and to give to clients as a basis for discussion of a wide range of planning issues. It is everything its subtitle claims: simplifying complex issues, humanizing them in terms not just of money but of values, and personalizing them with anecdotes about the estate plans of, among others, Paul Newman, Jacqueline Kennedy Onassis, and Chief Justice Warren Burger. There are action-oriented to-do lists at the end of each chapter. And

thinking ahead to the inevitable changes in law and regulation, Ms. Jacobs will be constantly providing updated chapters that can be downloaded at [www.estateplanningsmarts.com](http://www.estateplanningsmarts.com). There are volume discounts, and the book can be customized or personalized in a variety of ways. *Estate Planning Smarts* is really a terrific resource for advisors.

FROM 2/10 ISSUE

**5** There has been quite a lot of controversy lately—and even more confusion—about long-term equity returns, both absolutely and relative to those of bonds. (Such naysaying of equities has always been, and will most assuredly always be, an indispensable requirement of all truly historic equity market bottoms.) You will find a great deal of lastingly helpful clarification of this issue in Jeremy Siegel’s beautifully argued December 28 essay, “Yes, Stock Data Do Go Back 200 Years.” It’s a keeper: the financial/intellectual equivalent of breathing pure oxygen.

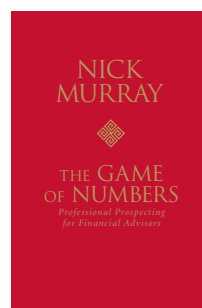
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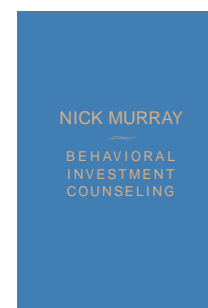
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