# 2011 First Quarter Commentary

## Withstanding Earthquakes, Tsunami's & Civil Unrest

The first quarter gave us much to ponder. We witnessed the president of both Tunisia and Egypt run for cover. We saw tremendous on-going discontent with Libyan leader Gaddafi which then spilled over into other parts of the Middle East. Oh…and oil prices broke $100 per barrel, again.

Who would have thought that these events would be a minor consideration after Japan experienced a massive earthquake, tsunami and nuclear disaster.

These events give one pause when assessing investment portfolios. Should you sell it all and just hold cash? Should you load up on gold? Should you avoid the stock market completely?

Warren Buffett often discusses the fact that he gladly accepts short term pricing volatility, but does not want to expose his portfolio to a long term, permanent impairment in value. In Buffett terms, he wants "battleships".

Given the numerous world issues to deal with, Buffett's strategies could not be more appropriate now than ever before. In fact, when we build portfolios for our clients we strive to build Buffett-style battleships also.

As such, our portfolios:

1. Invest in corporations that are easy to understand.
2. Invest in corporations that use very little debt.
   a. Debt does not make decisions right or wrong—it simply magnifies the impact.
   b. If we guess wrong—and have too much debt—it can wipe you out.
3. Are diversified both domestically and internationally. As such, these investments derive income from countries and economies all over the world.
   a. This helps to neutralize geographical risk. As such, when something does happen in one part of the world the profit stream does not dry up.
   b. This neutralizes currency risk which allows us to insulate our clients from destructive policies associated with devaluing the US dollar.
   c. This provides exposure to faster growing parts of the world. As the Baby Boomers enter retirement our domestic economy will slow. As such, we need exposure to international and emerging markets.
4. Own assets that are in demand in most markets on a daily basis. We are not looking for investments that can easily be shut off—we want people to need us each and every day.
5. Own stock market assets as well as fixed income assets and basic commodities.
   a. We analyze more than sixty different asset classes and markets on a regular basis.
   b. We will own virtually any asset—as long as the value is there.
   c. By having the flexibility of moving between asset classes we can exploit opportunities.
   d. We own fixed income assets not only in the US, but from nations and companies all over the world.
6. Are designed to hedge against inflation. Although the federal government tells us that inflation is a low 2%, more independent data reflects differently. We want to neutralize the impact of inflation so that our clients maintain their purchasing power.

Another concept to consider is this: if you owned all of Wal-Mart (a full 100% of the company) would you sell it to the first random person that comes along because of political unrest or natural disasters? How about if you owned 100% of Budweiser, Johnson & Johnson, Pepsi or Berkshire Hathaway?  Probably not.

And yet, that is what many people do when they sell at the first sign of trouble. Remember that when investing in stock market type assets, whether you own one share, one thousand shares or more, it is most logical to behave as if you own the whole company.

The above points sound simple enough—and they should be. Whenever investing becomes complicated, you probably shouldn't go there. Furthermore, we do not turn on the daily news and randomly start making decisions.

We use a very stringent and disciplined checklist of qualities that we look for, and will continue to look for, when evaluating assets for inclusion in a portfolio.

Given all of this, do recent world events concern us? Certainly. It is a very sad situation. We can promise that we have not seen the full implications from the situation in Japan.

Additionally, we have not seen the last of natural disasters or other things that are significant and very unexpected. There will be another Japan like disaster to contend with. As such, how will you position your portfolio? Will you be reactionary or will you continue to build battleships?

These issues have not caused us to change our methodology from an investment perspective. If anything, it tells us that our conservative "battleship" nature continues to serve our clients well.

Finally, we will be hosting our annual client appreciation party at Fossati's (302 S. Main) on Thursday April 28 from 5PM to 8PM.

We hope you will join us for a cool drink and something to munch on. It is always a great opportunity to visit a bit and let you know how much we appreciate the opportunity to work for you. Please put it on your calendar.

If you have any questions on this, or anything else, don't hesitate to stop by or give us a call.

Sincerely,

Dave Sather, President
CERTIFIED FINANCIAL PLANNER™

Warren Udd
CERTIFIED FINANCIAL PLANNER™