Worth Considering…

Winn Advisory

IAA International Assets Advisory

Jeff Winn Ken Moyer

Commentary ◈ Jeff Winn October 7, 2011

I am currently on a plane heading back to Orlando after attending a long-time client's memorial service in Washington, DC. It may sound odd, but I couldn't think of a better time to write this first installment of what will become a regular dialogue for years to come.

For the sake of privacy, I won't mention the client's name but can tell you that he was a fascinating genius who led a truly remarkable life. His obituary in the *Washington Post* highlighted some of his accomplishments but it was the comments made by his friends and colleagues at the service that really told his story. So while *The Post* could factually state that he was a remarkably bright man who earned a degree in Psychology from Yale before heading to Harvard for both Law School and his MBA, it took those he shared his life with to reveal his depth and character. They could tell of his sense of humor and of his sense of purpose. And he himself, through a letter he'd written as he knew he was failing, could tell about his intense drive to give away his wealth with as much intention and wisdom as he'd invested in developing it.

I am only telling you about this because this man was rich far beyond his material wealth. He was accomplished in many areas of life. His was the type of life that prompted others to carry around a bucket list long before the movie came out. And I'm not kidding; there were stories told about how people literally carried a list in their pockets inspired by the active life of this man who himself carried what was perhaps the first 'bucket list' I'd heard of. He saw just about all of the Earth's beauty spots and conquered mountains like Kilimanjaro and the Matterhorn along the way. When you hear about someone who balanced their life with all their passions, you get inspired.

So I come back to the question of why I would tell you about this man and a brief piece of his life story. It is because he couldn't possibly do the things he did if he didn't have a passionate view of life and a purposeful view of assets and personal wealth. It was a true honor for me to help him with his quests for investing responsibly for many of his goals that we achieved throughout a 14 year client/advisor relationship. Had his time on Earth not been cut short by cancer at the age of 66, I'm sure we'd have extended that list of accomplishments. I'm sad to be missing out on that opportunity.

It's with this in mind that I wanted to write this note today. My viewpoint of a successful partnership with each client goes beyond solely the responsible stewardship of their assets. It is my hope that each and every one of them lives a life of joy, purpose, and adventure, no matter how they define them. If my services can be a part of what helps someone live a life with more freedom and less stress, I am fulfilled.

I wish I could transcend the human realm and actually know the future of the markets and assure that every year ends with a higher

Winn Advisory
International Assets Advisory, LLC
300 S. Orange Avenue Suite 1100
Orlando, FL 32801

Jeff Winn
jwinn@iaac.com

Ken Moyer
kmoyer@iaac.com

Shelby Smith
ssmith@iaac.com

Linda Nunez
lnunez@iaac.com

800-432-4402

net worth than the one before it but I know that just isn't the case. However, in the absence of clairvoyance, we have only common sense and sound discipline to guide our path as investors. My team and I work hard on a daily basis to shine a little more light on that sometime treacherous path. We strive to continue learning about more efficient ways to manage risk and grow capital in the hopes that our clients take ample comfort in that knowledge to maintain our partnership and allow them to lead the lives they truly desire.

❖

What should you expect from these communications going forward? Let's start with the topic of length and frequency. I would be shocked if this didn't turn out to be one of the longest versions you'll ever see. Most communications will be short and to the point based on current events that I feel are necessary to highlight.

Throughout the week I sometimes find myself repeatedly making the same points via email or on the phone. In cases like this, I'll most likely distill things and send out a communication. Likewise, if I begin to get a particular common question, I'll likely address it here. The main purpose of these pieces is to keep you posted on my thinking between our phone meetings, but there'll be no set schedule of emails. If there isn't something worth saying, I won't intrude on your time or your Inbox.

Using history as a guide, I'd suspect that I'd find a communication like this useful once or twice a month on average – with market conditions sometimes calling for more or less. And to keep the people in the compliance department happy, I'll limit my comments to general thoughts and won't address any specific investment. Any specific investment advice or action I think is necessary will be communicated with a phone call or a personalized email, just as it always has been.

My business partner, Ken Moyer, has developed a practice of putting together a concise weekly missive that is based on our conversations and collective insights throughout each week. I think they would be a useful compliment to these more sporadic communications. Look for those in your Inbox as well. If for any reason you don't want to receive those emails, just let me know.

Let me also point out that I won't use these messages to overtly comment on politics. Whenever appropriate, I will comment on current political developments because they will certainly impact the investment environment but I won't engage in the odious business of pure political commentary.

One side note, however-- having just come back from Washington, DC--it does pain me as an American and as a father of young children to see how far we've strayed over the years from the principles inscribed on the monuments I took some time out to visit. I fully recognize that what our country once held dear, things like genuine liberty and a state that served the people and not vice versa, are currently lost in a cloud. It would take a dolt to not recognize that we've veered in sad and dangerous ways and I know I'm not alone in finding fault with both major political parties along the way. Truly, neither party has much to be proud of. So in these communications I'll steer clear of partisan party commentary a*nd really, as a registered Independent, why wouldn't I?*

I will wrap up each communication with a simple section called "the takeaway". This is where I'll succinctly summarize what I most wanted to convey throughout the note.

One final thought--nothing I'll write here should be considered proprietary information. In fact, I might pull in or cite work of others in my comments. I have no monopoly on good ideas or sound thinking. Likewise, I have no reason to think my thoughts here need to be protected. If you'd like, you can feel free to share these emails with whomever you wish.

With this simple framework in place, let me now share with you what I think are timely thoughts that would merit attention as my first official *Worth Considering* note.

❖

There has been no shortage of frightening news lately and I can't imagine it's about to stop.

When it comes to the investment world, all eyes are on Europe. I think this is with good reason both for the size and nature of their problems and the large percentage of global GDP represented. Simply put, something needs to be done with Greece. Let them fail, bail them out, whatever it might be, but do it already. The markets are more than able to digest and move along from bad news as well as good news. It's the "no news" that does the most damage.

My personal preference would be the orderly restructuring of Greek debt. You can call this a default by definition if you wish since the terms of a debt are being redefined. The shoe fits. It is now time to wear it. The money has been lost in Greece. Must more be lost for any reason – other than the arrogant inability to accept defeat?

And from the viewpoint of a capitalist, it is better seen as a victory. Within the equation of success for capitalism is a component of failure. Redeploying the remains of a failed venture elsewhere is a cornerstone of functioning capitalism. Would this be the end of the Greek society? Will it bring their economy to a point of permanent destruction? I sincerely doubt it. Long time international investors know well the stories of Russia, Asia, and Latin America. These were stories of failure that have arguably turned into great successes, though perhaps to varying degrees.

I'd be less in favor of a pure bailout of Greece but if that is what Europe chooses, so be it. I don't believe the markets will be able to develop any believable uptrend until the quarter is on the ground either heads up or heads down. My preference is clear, but most of all there's got to be a verdict rendered for there to be any rationale for how to best invest capital for the phase that follows.

And what about French (and other European, or even American) banks? Here again so much depends on the verdict of Greece. I might not always be able to sing the praises of our leaders in this country, but on this score we've definitely done better than the Europeans. Some say the stress tests we put our banks through a couple years ago were a joke. While imperfect, I'm not so sure that's true given the horrible assumptions that were part of that test. In any event, they went a pretty good way toward knowing what our financial skeleton is and isn't capable of supporting.

Nothing of the sort has been done in Europe. The result is that the fear of the worst case scenario is valid. How can one reasonably assess the unknown….just guess? No thanks. The market will sell first and do the math from the sidelines in that scenario. This leads to the logical domino effect with selling starting in banks spreading throughout the markets. The path of least resistance overall becomes down.

With these stories in the headlines daily, and with no coherent form of resolution to either – good or bad – the markets in Europe will stay shaky. This doesn't have positive implications for global markets in our modern intertwined world.

With these thoughts in mind, let me comment on the recent strength of the US Dollar and recent weakness of precious metals.

The US dollar has risen in every recorded global recession--every one. So regardless of all the various forces we all know are undermining the intrinsic value of the greenback, that is quite a track record. It may turn out to be an immutable law.

What to do with this information? First, we don't know for sure if the world will travel into another recession, and second, we don't know if this past performance might turn out to predict future results. So, provided foreign currencies don't directly compose an excessive part of a portfolio, it might not be wise to eliminate them completely. Now isn't a time to assume the overall downward trajectory of the US dollar is a given to continue, at least not without pause.

Indeed, the trend of the dollar for more than ten years now has been somewhat of a two steps down, one step up pattern. The clear trend has been lower, but brief countertrend periods are common. This is likely one of those periods. Maintaining currency diversification is wise and as someone old fashioned enough to consider gold (and silver) a currency, the metal(s) should be included on the list of assets to maintain at least a little exposure to.

But herein lays another, at least temporary, problem. It is important to remember back to the collapse of Lehman Brothers. Despite the increased uncertainty in the world at that time, for the following two months gold steadily lost value. This is counterintuitive to say the least but I believe the biggest force at the time in the gold market was the forced liquidation of the metal(s) by hedge funds on the verge of their own collapse in the midst of the panic.

Might this pattern be repeated in the wake of whatever might befall a European bank or two? Here again, I wouldn't want to be out of the metals market simply based on what might happen in the short term but as I held my metals positions, I'd think a bit about what exactly I might need to endure. Gold and silver are notoriously volatile. This means there are often times when their value is disconnected from their prices, in either direction. And if the financial markets, economies, and even societies around the world are as shaky as many say, the disconnect may be that they don't reflect their full value. In this instance, a pullback might be something to view with greed instead of fear, especially knowing that the cause of the pullback is more or less a trading phenomenon and not truly a reflection of the metals' actual value.

❖

Takeaways:

* Please emulate my friend who recently passed away and do your best to enjoy the truly valuable aspects of life – things that rarely have to do with money. I'm not (at all) a country music aficionado, but a couple years ago I heard a song by Tim McGraw called "Live Like You Were Dying". If you're familiar with it, you know it sends a strong message. If you want to read the lyrics or listen to the song, click these hyperlinks and enjoy.

Worth Considering

* Please be mindful of the potential for a continued rise in the US Dollar and decline in the price of precious metals. I don't believe the intermediate and long term trends in these assets are broken, however. Please don't position yourself too aggressively to take advantage of the long term trends until the nearer term phases play out a bit more.

All the best,

Jeff Winn