

THE SUCCESSFUL INVESTOR

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Spring has sprung

As the flowers blossom and the trees fill with bright green leaves, the reality of spring fills the air. the global economy. Flip to page 7 to read more.


We hope that this time of renewal isn't just for Mother Earth. Although the future of the economy is still anyone's guess, there are some interesting things to ponder.

Chuck's column gives readers some tangible "to do's" to keep their finances in check. This isn't a rose-colored glasses assessment but rather some strategies to help clients take control of their financial future. Check it out on page 2.

The insights of our team don't end there as Gabe tackles the interesting subject of inflation. He explains why it's important to consider and what impact it could have on

On a more personal note, our guest column this month by Thea Beatie Eliot, JD, spells out three easy steps all parents should take to protect their children. Intrigued? Read her column on page 5.

And we focused our Fascinating Financial Facts on the housing market. Check out the surprising statistics on page 6.

We understand that as spring brings hope of renewal, there is still a great deal of uncertainty in the world. We are constantly striving to stay nimble, learn new skills and protect our clients' assets. We are always here if you have questions or concerns you want to discuss. 



Ed Runyon, Principal



Chuck Bowes, Principal



Gabriel Brenner, Principal

"May you live in interesting times." — Chinese proverb

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Surviving and thriving during an economic crisis

Gain perspective, take prudent, measured actions to have long-term success



Chuck Bowes
Principal

It seems everyone has taken a deep breath in the past few weeks and is emerging from the frozen grips of fear and starting to wonder "now what do I do?"

I am hearing more people ask how to move forward after enduring tremendous economic declines. What can I do to keep my job, fund my kids'/grandkids' education, resuscitate my portfolio, fund my future retirement or keep from running out of money amid retirement? There are two primary strategies to help you survive and thrive during this financial crisis: first gain perspective and second take prudent, measured actions.

In terms of gaining perspective, I'm not simply talking about studying past bear markets. We have all been bludgeoned with charts and graphs about recessions, depressions and stock market returns before, during and after. And while the lessons we can learn from studying past returns are important, they often are drowned out by the fear of "this time is different."

And you know what? This time is, in fact, very different. Collateralized debt obligations, credit default swaps, guaranteed investment agreements, Alt A loans and a list of other financial instruments were only developed in the last 10-12 years. Not to mention the rise of China, the fall of the dollar and the free flow of capital (human and financial) around the world like never before. The government is throwing around billions of dollars like pennies from a piñata, so it is no wonder that market returns and economic data from past periods of crisis don't provide sufficient comfort.

Consider the bear market of 1973-74. It surely wasn't caused by "financial instruments of mass destruction," so why should it give us confidence that we'll recover this time?

In 1973 the S&P 500 returned -14.67 percent followed

by a further drop of -26.46 percent in 1974. And if I really study the data, I can see '73 and '74 were just the last painful years of a terrible 10-plus years of equity investing. Yet it is plausible that if someone had the courage to invest \$100,000 in 1973 and "hang in there" through multiple recessions, crises and market crashes, they would have had \$1,972,000 at the end of February 2009 (not a bad return since it is 50 percent less than it would have been 18 months earlier).

But I still don't "feel" better knowing others have gone through this and prospered by taking a long-term view and staying disciplined. Perhaps that is because we were in a much different phase of our life 36 years ago and just don't remember all the "unprecedented" causes and effects from past financial crisis — let alone the fear and uncertainty they caused.

For example in 1973, I was dealing with the social turmoil of moving from the Lee jeans, plaid collared shirts and crew cuts of the South Pasadena urban public school system to the O.P. shorts, surfer T-shirts and long hair of the southern Orange County rural public school system. I just wanted to find a few friends and learn how to boogieboard!

But how did my parents feel? The Vietnam War was grinding on and, for the first time, America failed to achieve her goals in a war. Oil and gasoline prices were as high or higher than last summer (in relative terms) a president was getting impeached and the country was questioning its moral character and direction. Those were certainly "unprecedented events."

My parents had just relocated to San Juan Capistrano, my dad's company was struggling and they had stretched to buy a larger house. They were a bit more concerned than I was!

What about my grandparents? Both sets of grandparents retired in the early 1970s, sold family homes and purchased retirement homes, and were trying to figure

Continued on page 3

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out how not to become a burden on their families. (Little did they know they had 30-plus years of retirement to fund!)

We had never had an oil embargo, inflation was running above 12 percent and TWA Flight 841 en-route to New York was blown up by a terrorist bomb killing all 88 people on board — all “unprecedented” reasons to be fearful. The stock market had not fallen that far since the Depression — and they remembered the Depression all too well. Yet they survived and thrived.

If we put ourselves in the shoes of people who have gone before us, we can gain perspective critical to helping us craft our course of action during today’s tumultuous times.

So what is that course of action? Each of you is in a different situation and has different goals, so your specific action plan is unique, but there are some strategies we can all consider.

Refinancing: Not only has the stock market taken a precipitous fall, mortgage interest rates have fallen. Credit standards have certainly tightened up, but for a vast majority of you, refinancing could be a critical component to long-term success. For example: If you refinance a \$625,000 loan from 6.25 percent to 4.75 percent, you can lock in a very low rate and free up \$588 each month for other purposes.

Reassess: Those of you who purchased your home in the last five years should consider having your home value reassessed by the county appraiser, as you may qualify for a reduction in property taxes.

Re-bid: Anyone who is considering a major capital expenditure (home remodel, family vacation, new car) should get a fresh round of competitive bids. Businesses of all types are hungry for work and you could be the beneficiary.

Re-plan: Generally speaking we do not believe in updating your financial plan simply because asset values have declined. However, if you have near-term goals and/or have re-evaluated your goals, it may be helpful to update your financial plan. We usually suggest complete plan updates every two to three years but are happy to work with anyone to re-evaluate at any time.

Re-invest: Notice I did not say “stay invested.” For many, it has been tough to stay committed to regular savings and investment plans. For those with a more flexible savings approach, it can be even harder to invest because of the emotional pleasure of building cash surpluses in uncertain times.

We are big believers in keeping prudent cash reserves and a conservative personal balance sheet. However, prudent is not

excessive and it will serve you well to really consider your cash needs and the potential long-term benefits of injecting new cash into your investment portfolio through this bear market. We are not suggesting the market has hit bottom, but we know that consistent, regular investments made during past bear markets historically have been viewed as very savvy. You will receive twice as many shares for each dollar invested today as you did at the peak of the market in fall 2007. It is possible that implementing a serious investing program today could decrease the time it takes to achieve your goals — even though your portfolio is significantly lower today. Here are a few ways to think about reinvesting:

- Re-direct the savings from your refinancing into your investment portfolio. It is easy to set up an automatic deposit so you don’t have to think about it or “see” the money come and go.
- Make a one-time “make up” contribution to a child’s or grandchild’s 529 account. Or encourage friends and family to give “education gifts” this year in place of more traditional birthday and holiday gifts.
- If you did take some money out of your portfolio, consider developing a systematic reinvestment program so you don’t have the burden of having to “find the market bottom.”
- If you are fortunate enough to have built up some extra cash, consider lump sum or systematic investment programs to deploy the funds into your investment program.
- Ensure your workplace savings plans are being fully utilized.
- Simply remember the mathematical fact: As stock prices decline, the future expected return increases. So every dollar invested at lower prices has a higher expected return than the shares you purchased in years past. Therefore a portfolio that experiences regular investments during down markets will outperform a more static portfolio.

Lastly I think we can all reflect on others who are in far worse situations than our own and be glad we have the opportunity to gain perspective and take prudent actions. It is certainly not an easy thing to do, but then again most things worth doing are not all that easy.

I now need to go look at the summer calendar and see if I can find a weekend to introduce my kids to boogie boarding! (I’ll have to dig out that 1970s original Morey boogieboard and Duck Feet to save a few bucks.)

As always we encourage you to contact us with any questions, comments or concerns. [R&B](#)

Sailing through life . . . one dream at a time

Once upon a time there was a man, a woman and a boat. The man, Rick Berman, had worked in the restaurant biz, helped in post-Hurricane Katrina efforts and knew how to cook, paint and build furniture. The woman, Anya (Maren) Jepsen, had traveled the world, run her own business and built a strong community around her.

Wondering where the boat comes in? Well, that's how they met: sailing.

And just a year after meeting, they were skipping down the aisle. The Seattle-based couple has been blissfully married for almost four years.

"We are the perfect fit," says Anya, 46, in her wonderfully down-to-earth style. "I'm glad I waited as long as I did."

Their love of adventure is one of the bonds that keeps their marriage strong. From snowshoe trips every winter to sailing their Catalina 34 every summer, these two live life to the fullest.

A self-described "lifestyle entrepreneur," Anya isn't motivated by the mighty dollar. She's a good saver and appreciates that a strong sense of security equates to more choices.

Anya's day job is as a professional coach where she strives to inspire the best in others (www.jepsentcc.com). She's been coaching for about six years, has built a thriving business and loves her work. Rick, 52, spends his days helping the City of Bellevue in its technology department and as No. 2 in charge, finds challenges and triumphs in his work.

"We are super grateful right where we are," Anya says.

And why wouldn't they be? They've created a strong sense of community, have successful careers and an amazingly balanced life.

Although they don't have kids, they are believers in the concept that "it takes a village." In December, they hosted eight kids — all under the age of 8 — for a holiday dinner. In addition to feasting on some tasty grub, they read "The



Favorite vacation

spot: Bareboat in the Caribbean.

Favorite meal to cook for guests: In the summer, jerk chicken, rice, green salad with Viognier (Anya) and rum (Rick).

Sage advice for newlyweds: Laugh a lot and pay attention to the small things.

Grinch," watched movies and sipped on hot chocolate — all to let the parents have a night to go shopping sans children.

Hosting dinner parties and entertaining friends is one of their passions. They both love to cook and joke that they have the "kitchen of love."

Their kitchen is adorned with a big, beautiful restaurant quality six-burner stove. The story of the stove is worth telling. When Rick proposed to Anya, he presented her with a beautiful diamond ring. Anya accepted the ring and proposal but had a family ring tucked away. She and Rick talked about Anya using the family ring and returning Rick's diamond ring.

"What would we do if we returned the ring?" Rick questioned and the idea of a new stove was cooked up.

Time with friends expands way beyond the kitchen though. The couple hosts cocktail cruises on their boat, spent two weeks in the Caribbean on a bareboat charter with nine friends and are headed to Peru this May with six friends.

"We believe in choosing one thing on your list every year," says Anya with coach-like authority. "If you have too many dreams, it's hard to make any of them real."

And then Anya and Rick sailed happily ever after ... **R&B**

Protect your children from an often-overlooked risk

A primary reason parents with young children plan their estates is to protect their children in the unlikely event of premature death. It is standard practice for parents to nominate permanent guardians to care for their children until they become adults. But there is an often-overlooked issue that, while unlikely, is certainly possible.

I'm going to lay out a frightening scenario because that's the purpose of estate planning — to identify all the bad things that can happen, and to help you avoid them. Very few people have considered this scenario, so please don't feel bad if you have not.

Imagine that you and your spouse finally have a night out without the kids. You leave the kids with a babysitter and leave a list of phone numbers to call in case of emergency. Now imagine what would happen if you didn't make it home that night. As awful as it is to think about, suppose you were in a car accident and the police, seeing your address on your driver's license and pictures of your kids in your wallet, went to your house. Your babysitter would be upset and possibly confused. She and the police would try to reach the people on your emergency contact list. The police would try to find a relative to take care of the kids, but what if they couldn't find someone relatively quickly?

The police don't know your babysitter so to protect themselves from liability, they call in Child Protective Services. A CPS social worker arrives and takes your kids into protective custody. The authorities eventually locate your parents on their vacation and determine that they have legal authority to care for your kids. Your parents catch the next flight and arrive the following day to take custody of your kids. In the meantime, your kids have been scared, confused and surrounded by strangers. As parents, this is one of the worst things we can imagine happening to our children.

It's surprisingly easy to put in place a plan to avoid this nightmare and give you peace of mind. Here are three steps to make sure this doesn't happen to you.

Step 1: Create a Plan. Put in place a clear plan for the care of your children if something happens to you. The most important part is to get started. The next

two steps tell you what that plan should include to avoid the short-term problems discussed above.

Step 2: Give Written Legal Authority to First Responders. It is important to name temporary guardians (we also call them "first responders") who could arrive at your home with legal documentation giving them the authority to care for your children temporarily. This would give the police an alternative to calling in CPS. Those temporary guardians should be within 20 minutes of where your kids are most of the time. Your kids should know them and be comfortable with them. They should also be the kind of people who would hold up well in a crisis. Because the goal is to provide the police with documentation that they feel is sufficient, it is best to have temporary guardian nominations prepared by an attorney.

Step 3: Give Guidance. Make sure your children's caregivers know exactly who to call if something happens to you. Also, make sure your first responders know that they are going to be called on if something happens to you and make sure they know just what they should do in that situation. The first responder should have the documentation that gives them authority to care for your kids if necessary so they can present it to the police if something happens. It is also a good idea to let the police know that you have minor children and that you have made arrangements for their immediate care if something happens to you. We do that in my practice through wallet cards that my clients carry with them at all times.

As you can see, these steps are not complicated. The only difficult part is finding time in our busy lives to address them. It can be tempting to put this kind of thing off, especially because it's unpleasant to think about. But the results of not taking care of it could be severe. And the benefit of taking care of it can't be overemphasized — finally, peace of mind. [R.B.](#)

Thea Beatie Eliot, JD, LLM, is a mother of two children and an estate planning attorney who zealously focuses on helping families with young children protect who they love. She lives and practices in Marin County. Learn more about Thea on her blog at www.TheaLaw.com/blog.



Thea Beatie Eliot

R&B busy learning, giving back, staying sporty

Runyon & Bowes was featured in the Journal of Wealth Management Consulting, a CEG Worldwide publication, in January. The Journal did a story on Runyon & Bowes and how they have successfully grown and managed their firm. You can see the article at www.runyonbowes.com.



In February, Chuck attended the Family Wealth Advisory Council's semi-annual meeting in Dallas. Attendees discussed new investment paradigms, reviewed several new investment vehicles and learned various strategies for helping clients during economic downturns.

On March 2, Runyon & Bowes produced an audio commentary for our clients. This nine-minute piece discusses the economic markets and R&B's recommendations for navigating through them. You can listen to the audio by visiting www.runyonbowes.com. We are striving to communicate clearly, constantly and in different mediums with our clients as these uncertain economic times unfold.


Chuck and his two kids, C.J. (8) and Genny (6) spent Martin Luther King Jr. Day, Jan. 19, planting seeds and pulling weeds at the Merritt College Community Garden. The produce grown at this community garden is donated to local food banks. As many of you know, Martin Luther King Jr. Day is also known as King Day of Service. President Obama asked Americans to get involved and give back this year and the Bowes clan took his message to heart.

In an effort to stay on the cutting-edge of this global economic crisis, Chuck and Ed have been participating in numerous conference calls and Webinars in addition to attending conferences. They are hearing expert opinions regarding the government response to the financial crisis, listening to advice from economic experts and constantly seeking validation that R&B's strategies are sound.

When Ed isn't crunching numbers, chances are good you can find him on a bike (road or mountain, doesn't matter). He rides three days a week at sunrise and usually logs between 80-100 miles every week.

Chuck is on the Citizen's Advisory Committee for the Oakland Wildfire Prevention District. This group works together to assist home and property owners to prevent urban wildfires in the Oakland Hills.

Ed and Lisa aren't your typical soccer parents. This spring, son Blake (8) is playing double AA little league while daughter Rachelle (11) plays softball and soccer. Last week Ed and Lisa attended seven games within a single week for their lil' sporting duo.

Farm Bowes continues to thrive. Thanks to help from brother-in-law, H.B., the chicken coop has a solid new roof. The chickens, still happily laying multiple eggs a day, were enjoying munching through the tasty veggies so were promptly relocated to a new section of the yard far from the leafy kale, fresh green beans and juicy strawberries. 



Fascinating Financial Facts: The Housing Industry

Top 10

The 10 California cities with the highest median home prices in January 2009 were:

1. Santa Barbara, \$939,250
2. Redondo Beach, \$672,500
3. Pleasanton, \$655,000
4. San Clemente, \$602,500
5. San Ramon, \$582,000
6. Yorba Linda, \$566,750
7. San Francisco, \$561,000
8. Huntington Beach, \$555,000
9. Encinitas, \$550,000
10. Sunnyvale, \$530,000



\$254,350

The median price of an existing, single-family detached home in California in January 2009, a 40.5 percent decrease from the revised \$427,200 median for January 2008.

30-year rates

Trends in 30-year fixed mortgage rates

| 3/12/09 | Same week in 2008 | 4-week average | 3-month average | 1-year average |
|-------------|-------------------|----------------|-----------------|----------------|
| 5.03 | 6.13 | 5.07 | 6.24 | 6.11 |

Go California!

In February, strong national sales gains in the West were led by California, where the median listing price is beginning to rise for the first time in three years.

Data from the National Association of REALTORS

Inflation is constant risk, especially in troubled times

In all times, inflation is a risk. It could be the next disruptive economic anomaly we face. It is certainly worth considering.

Don't take my word for it. Warren Buffett discussed this concern in his recent annual shareholder letter. And while not as famous, Allan Meltzer is at least as authoritative, if not more so. Meltzer is an economist and professor of political economy at Carnegie Mellon University.

Meltzer has one volume and another due shortly. Subject: History of the Federal Reserve. And HE is worried about inflation. The Japanese met with Meltzer and failed to take his advice early in their Lost Decade. Had they taken it, maybe they would not have lost a decade.

But we do examine how our strategies might play out in a variety of conditions.

We are curious. People ask. So let's ponder it.

In the short term, news of inflation has, historically, had a negative effect on stocks. As inflation spikes, so do interest rates. And as such, there is a sudden siphoning off of investment capital by those for whom the new interest rates are compellingly high that they will forgo equity risk for a certain return.

But an inflation-fear-correction is typically followed by equities matching inflation and then some. The reason is quite simple, really. Earnings are the core of an enterprise's value. As the cost of goods and services rise, corporations have historically been able to realize pricing power. Rising sales and rising income logically flow into rising stock prices, or at least it has. Pricing power could elude the corporation in a future inflationary period. Equities simply have, in the past, been a good hedge against inflation.

Real estate has been a good hedge against inflation. Rents have historically inflated with the general economy. And rents, to a very large degree, have

driven investment real estate. A client's combined worldwide exposure can be as much as 10 percent in our portfolios. Inflation or no, we like long-term real estate returns. Their risk and return is comparable to that of equities. Sadly, their hoped for diversifying influence has gone AWOL in the current downturn.

Commodities can claim either that they have inflated because of general inflation or that they are simply not correlated to equities or anything else for that matter. They don't move with or against. They march to their own drummer. Commodities could be a good hedge against inflation. While they are notably volatile, they appear to have both lowered a diversified portfolio's historical volatility and raised its return. We use it in small measure.

Only short-term government bonds and cash have proved safe in this downturn. But cash has not been a good hedge against inflation. Bonds have not. Gold (though a commodity) has not. Venture capital has a short data series and is extraordinarily exclusive.

There aren't any other generally available and passive investments that I can consider at this writing.

Direct real estate investment is more of an operating business not suited to any but the handiest of us and which carries place risk (flood, quake, neighborhood deterioration etc.).

It merits disclaiming that we have had but one great modern inflation. A future inflation event might behave differently than the one we previously experienced. One example is never too meaningful. But this capitalistic global economy is rather new anyway. And we invest in it upon the general faith that human kind is creative and striving. Americans, historically, have been especially inventive. That spark, should humankind be wise enough not to extinguish it, has always and will again ignite opportunity.

Until then, we are investors, sun or rain. The torrent always ends. [R&B](#)



Gabriel Brenner

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“Strategies to *survive* and *thrive*
during this economic downturn.”

“Discussions and insights on *inflation*.”

“A couple of clients who *walk the talk*.”

“How to protect your *children* from an often overlooked risk.”

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