

Subject: FW: News letter April



Schulmerich & Associates Asset Management LLC

April 1, 2010

Volume 2, Number 2

In This Issue

- “The Lost Decade”?
- “Sustainability” the popular word these days.
- Why do so many individuals invest as if the world outside of the United States doesn’t exist?
- If you haven’t heard yet?
- From the desk of Stephen Schulmerich

Contact Us

[Schulmerich & Associates](#)

Business: 503-672-7699

Fax: 503-672-7699

E-mail: Schulmerich@comcast.net

www.schulmerichandassoc.com

“The Lost Decade”?

In December of 2009, the Dow Jones Industrial Average, the S&P 500 Stock Index, the NASDAQ and the EAFE were all a lot lower than they were on December 1999. The NASDAQ itself is 44% lower than ten years ago.

For many of you, our investments and retirement accounts are all worth more today than they were 10 years ago. This is because you have continued to save money throughout the past decade. You kept contributing money to your retirement plan at work and maybe also funded IRAs and other investment accounts. By buying more shares, especially as prices declined from 2000 to 2002 and in 2008, you exploit a concept known as dollar cost averaging, a strategy that enables you to improve long term returns by continually buying shares during temporary market declines. It is likely that the value of your accounts was higher by the fact that the stock market itself remains much lower.

You likely didn’t place all your money solely in the us stock market. Most people would consider such a move to be far too aggressive and risky. Instead, you probably own a more diversified portfolio that contained foreign stock, bonds, CD’s, real estate and U.S. small value stock, emerging markets, Asia Pacific small stock . This diversification will prove it’s worth, as it gains in some asset classes were able to offset losses in others.

Some might have exited the last decade with a lower net worth than when they started. The bulk of our clients, by contrast have more money today than they did 10 years ago, thanks to the smart dual strategies of continuing to invest and diversifying. You don’t need a rising stock market to make money.

So you may be asking yourself why all of our clients have not ended the decade wealthier? Many of our clients are retired and rather than adding to their investments, they have spent much or all of the past 10 years withdrawing money instead. So while it is possible that some of these folks might not have increased their net worth, they have nevertheless emerged from the 2000s relatively unscathed, thanks to the fact that they maintained a diversified portfolio.

Many People make the mistake in believing that retirees should have all their money in bonds, bank CD’s and government securities. Things

that generate income and regarded as safe from the stock market gyrations.

It is true that a fixed-income portfolio can generate income, it is incorrect to assume that it will generate as much income as a retiree might need. This point was driven home the past couple years as yields on CDs, Treasuries and other debt securities fell to an all time low. When yields fell, retirees that were needing income from their investments found themselves forced to liquidate some of their holdings in order to get the money they need. Thus causing them to dramatically cut their net worth in this past decade.

Retirees who maintained diversified portfolios had the opportunity to fair much better. That's because well rounded portfolios maintained better capacity to generate the income that retirees needed thus helping to maintain their market value in a very difficult environment.

An article for everyone

The

Sustainable Portfolio

"Sustainability" is a popular word these days, and the beginning of the year is a good time to contemplate the application of the concept to your portfolio. Investors and their advisers often forget that the true objective of investing is to provide a hedge against future purchases. In the day to day rough and tumble of the markets, investing seems so much like a game that it is easy to try to achieve small "wins" that may be at the expense of long-term goals.

Most of our individual clients are trying to build a portfolio that will meet their necessary withdrawals for spending in retirement. Most of our non-profit clients are trying to build an endowment portfolio that will fund their operations for decades to come. For these clients, what happens day to day, week to week or quarter to quarter, is of little consequence – their goals lie far in the future. Nothing really changes for a new retiree on the day he/she stops working. The danger is not that he/she will have no money the next day, but that he/she will have no money then when they are 94 years old, the result of the necessary withdrawals and poor performance due to an ill-designed portfolio. The key is to develop a long term plan to maximize the chances of sustainability, of being able to cover your spending needs 10, 20 or 30 years into the future and beyond..

A decade ago the dichotomy between the short-term game and the long-term sustainability goal was at an extreme as the Internet bubble and day trading reached their peaks. Frustrated with the inability of the media and investors to focus on anything but the here and now, we undertook a long-term research project oriented towards portfolio sustainability. Our objectives were to provide a way for our clients to see clearly their progress in achieving their investment goals and to insulate clients from the noise of short-term

market movements and the groupthink of the herd of investors, due to what we felt were the shortcomings in the process many other advisers used to consult with their clients on the sustainability issue. We felt a particular urgency in undertaking our own research. When they have, the stock market that declined at a rate of 25 percent annually. Clearly, we have substantial evidence of the disaster of an economy in distress.

The more optimistic investors, glass-half-full argue that such statistics are just history, and depressing reality that the stock market already discontinued in the severe decline ended last March. Investing based upon economic headlines is like trying to drive a car while looking in to the rearview mirror. One thing we can know with certainty is that policymakers are not ignoring or overlooking the dismal economy. We are living now in a world according to the financial markets. Congress is discussing follow-on stimulus bills. Political polls indicate voters place the economy as their top concern, overshadowing healthcare and other headline issues. Politicians are unlikely to ignore these consistent polling trends. The question is not whether government Policy is oriented towards improving the economy, but whether it will make a difference. Changing our literary genre, think of the economy as if Treasury secretary (Tim Geithner) and Fed Chairman (Ben Bernanke) are characters out of a Jack London story, trying to start a fire in a soggy arctic forest. They have dry newspaper, slightly damp kindling and a wet log. When lit, the newspaper always nicely erupts into flam. The kindling, after a slow start, also catches fire and provides a burst of heat and light. It all ends quickly, through, if it is not enough to get the log burning.

The paper that allows our heroes to get the flames started is liquidity created by the Federal Reserve and Treasury as emergency response to the financial meltdown. Some statistics demonstrate an almost immediate response to the paper stage, for example the quick uptick in car sales because of the economy's inventory cycle firms have to restock inventory once the surge of liquidity leads to a quick burst in sales. The most recent data also shows the start of an inventory rebuild (so the kindling is providing a nice flame. The log, however, is the real economy, still wet from the balance sheet destruction of the financial crisis. Geithner and Bernanke may be on hands and knees blowing on the small flames, but until there is substantial business investment in anticipation of economic improvement, until consumers finish rebuilding their balance sheets and start spending again, that warm fire is unlikely to last long. As White Fang, Jack London's wolf-dog hybrid, the recent benign auto purchase and inventory statistics, induced by government stimulus, may mask a lurking ferocity of potential troubles, the lingering wildness of the excess of the banking and real estate bubble. To quote Jack London, "Life is not a matter of holding good cards, but sometimes, playing a poor hand well." The problems in the economy are

legion, but beyond our control. The economy and financial markets have dealt us a poor hand, and our efforts now are devoted to playing it well.

Why do so many individuals and professional managers invest as if the world outside of the United States did not exist?

When selecting a restaurant, would you use a method that eliminates half your choices? The United States stock market is less than half the value of the stock markets of the world - and our gross domestic product is an even lower percentage.

We live in a global world. When you stop for a snack at a Ben & Jerry's, after filling up your Lexus at the Shell station, on the way to the store to buy some Dannon yogurt, your every step depends on the global economy. None of those products are owned by U.S. companies. Your purchases are global -- shouldn't your investing be global as well?

In addition, while past performance does not guarantee the future, in the past decade, U.S. stocks as a whole went down, while foreign stocks as a whole went up.

To find out how your portfolio can benefit from opportunities that exist, call 503.672.7750

Schulmerich & Associates Providing Wealth Management for Business & Individuals

If You haven't Heard Yet...

Schulmerich & Associates has some new products that we are excited about. If you want to learn more about these products available to our clients please call us.

MoneyGuild Pro

Schulmerich & Associates has purchased Retirement Planning software called MoneyGuild Pro. This will be a written financial plan that will allow you a road map and a clear vision of your retirement planning. This new software is to help us motivate our clients to create, implement, and maintain an investment strategy that best meets your life time financial goals. We will provide you with a "Your Retirement Lifestyle Book" that you will fill out and give back to us. This will allow us to learn more about you and will also allow you to get a closer look at your retirement goals.

Advisor Vault

Advisor Vault is available to all of our clients. This allows the client unique access to their own storage of documents. This is where we will put your Performance Report for viewing. You may also store your personal documents on this secure site this would include financial statements, tax statements, wills and trust documents, and retirement plans. This service will be available when you set up your account at Schulmerich & Associates. You will receive an Email with a temporary password and Email from Schulmerich & Associates with your user name. You will have 24 hours to access your password or it will become invalid. If you have any questions please do not hesitate to call us.

Sign Up to Retire Smart

Join Stephen Schulmerich as he shows you how to “Retire Smart” in one of two educational workshops in April. You can also register by calling 503-672-7750

This free, no obligation events will take place on:

April 10th at 10 a.m. at The Reserves Vineyard and Golf Club in Aloha, OR

April 17th at 10 a.m. at the Crowne Plaza Hotel in Lake Oswego, OR

If you know anyone that may be interested in attending Please let us know.