President's letter

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We have, perhaps, arrived at a point in time where economic perils (and their forecasting) will probably be more difficult than at any time in recent memory.

Consider debts, deficits, war, terrorism on American soil, indictments, the U.S. dollar, the changing of the guard at the Federal Reserve. If that is not enough, how about the fact that last year the American consumers spent more money than they earned (much of these expenditures financed by mortgage refinancing – betting the ranch so to speak) for the first time since the great depression! The current and recent single family housing market and the refinancing of homes has probably fueled consumer spending for five years.

Collectively, I believe, these and many other factors warrant a degree of caution in the management of one's financial affairs not witnessed in at least a couple of decades. Yes, that's right, the events of the next few years may indeed be more devastating (and long-lasting) than any other period of time since the late 1970s.

As in any unfavorable economic environment, there will be ways and means of preserving capital, or even profiting. The first thing most of us will need to do is consider every possible means of eliminating most forms of debt (including margin accounts), save, perhaps, for a reasonable mortgage (not to include the new and exotic forms of mortgages such as "interest only loans"). Then one must curtail spending to the degree necessary to maximize (or nearly maximize) some sort of tax advantaged retirement plan unless you are already retired. Right, this probably means you will need to reduce your current standard of living (yikes)!

I do not believe that traditional investment portfolios will perform well over the course of the next several years, which is to say that I believe such portfolios are probably "high risk." The time honored strategy of purchasing and holding equity or balanced portfolios, sector rotation, trading the long side and the like all rely upon bull markets (or at the very least flat markets) in the debt and equity sectors, such markets I do not feel are sustainable in that time frame.

I suggest that fixed income investments be moved to securities of the very highest quality (united states treasuries for example) and in maturities which are laddered out to only five years, as in my view the probability of rising interest rates over the next several years greatly exceeds the possibility of falling (or even stable rates). I would avoid most pooled fixed income investments, such as mutual funds, if possible.

Equity investment where necessary or desired should be both of high quality and hedged and again, in most circumstances traditional pooled investments should be avoided if possible.