

May 2010 #1

## **Ban v Arrid: A Measured Approach**

I use Ban roll-on – unscented, not powder fresh. My mother reminds me that I was raised on the family’s much beloved Arrid roll-on. I’m grown now, so it gives me some comfort to show my independence with my deodorant decision. My Ban choice seems a little “pricey” to me, but sometimes it’s on sale. I use it rather liberally because I don’t think it’s a good idea to let the stress of managing our clients’ portfolios manifest itself without the protection afforded by a good dose of anti-perspirant. If it’s close to time to replace a declining inventory in the linen closet and I’m in a store, I’ll pick up a bottle – if it happens to be on sale, I’ll buy several. If the necessity arises to consider alternatives due to a continual premium price, I have the Arrid choice to fall back on.

The equity (stock) markets have had a phenomenal rise in price since early March of last year (2009). These precipitous increases followed a period of frightening declines in very late 2007, all of 2008, and the first couple of months of 2009.

We have indicated several times that beginning late September 2009 our much-detailed measurements suggest that the general stock markets have reached and modestly exceeded what we call “fair value.” Our informed response has been to systematically and carefully take steps to reduce exposure, and related risk, to general equity (stock) holdings in our models and clients’ portfolios.

Over the last few weeks we have received a few calls suggesting that now that stock prices are higher there should be an increase in stock exposures for our portfolios. This is the substantial equivalent of my buying more deodorant when it is premium priced and less when it’s on sale - certainly a counterintuitive approach to buying toiletries, but nevertheless suggested by folks wanting more stocks while they are expensive. It’s clearly a much more favorable strategy to buy low and sell high, not the opposite; and to be paid to take on risk as opposed to paying for taking on the risk.

Our measurements showing a somewhat overvalued stock market are not meant to be timing devices suggesting a mass exit from equity investments. History shows that assets (equities in this instance) can remain overvalued for extended periods of time. They do suggest, however, some increase to risk of loss and a somewhat diminished return expectation over the next several years. Hence our reduction in equity exposures and quest for asset classes with more favorable risk / return characteristics - much like my single bottle purchases at premium prices and opportunity to move to Arrid if indicated by pricing and utility.

Some notes for your consideration and “take-away.”

- Our models and client portfolios have positions in two Goldman Sachs mutual funds. Goldman Sachs has been much maligned in the press and on tv the last few weeks. The unit of Goldman under fire is associated with their mortgage trading and structured product activities. Whether they have been good, bad or indifferent toward their responsibilities and clients is not information to which I am privy.

What I do know is that the mutual funds we own are not part of the activities in question and their very nature as mutual funds separates their ownership from Goldman Sachs. Mutual funds are separate entities owned by the shareholders (that’s me and our clients), controlled by an independent board of directors elected by the shareholders, and not subject to the creditors or liabilities of Goldman Sachs.

- You will see some changes in the holdings representing the fixed income or bond portion of your portfolios. We are moving toward a somewhat more “tactical” approach to fixed income positions as we anticipate the near future direction of interest rates and the shape and slope of the yield curve. Much more on this in a week or two as we present a white paper on our assessments and resultant reaction to current market and economic conditions.
- I will be out of the office the last two weeks in May. I have not been off two weeks in a row in a little over 23 years. As one of my clients told me “it’s about damn time.” I’ll see you before or after.

God Bless, stay dry,

*Doug*

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