

May 2011

## Preacher Says Rapture Pushed Back to October

A California preacher predicted or *prophesied* that the end of the world would occur the afternoon of May 21. As far as I can tell from my seat, the world looks pretty much like it did last week. The same fella predicted the same occurrence back in 1994; apparently he made a mathematical error that pushed his prediction forward to 2011. Now, he has moved the date to October of this year (according to the Memphis Commercial Appeal). The world's end appears to be unpredictable.

*Although our intellect always longs for clarity and certainty, our nature often finds uncertainty fascinating. ~ Karl Von Clausewitz*

We spend our days (and some nights) around here at TD Capital trying to deal with the reality or certainty of uncertainty. We know that the securities markets are uncertain and unpredictable. Yet, we spend considerable time and effort trying to arrange our (your) portfolios in such a manner that the few near-certainties that appear to exist are appropriately reflected and that we have some protection from permanent or serious harm as a result of the uncertainties.

*Certainty is the mother of quiet and repose, and uncertainty the cause of variance and contentions. ~ Edward Coke*

In some areas of our lives we have the fairly simple option of buying insurance. Insurance - not as protection against accidents and resulting injuries, damages and liabilities, rather insurance to pay or assist with the financial effects of accidents or other damages. Memphis has recently been affected by the rising waters of the Mississippi River and its basin and tributaries. Many of us ran to our files or called our insurance representatives to confirm that we have insurance in the event of floods. Not to ensure that floods will not affect us, rather insurance to help pay for any damages to our properties. We generally have health insurance and life insurance to transfer the *financial* risks of major medical expenses or untimely death - to the insurance company. Insurance helps spread the costs of life's calamities.

*Information is the resolution of uncertainty. ~ Claude Shannon*

Other areas of risk or potential peril do not allow for the simple convenience of transferring the risk to insurance companies or others. For some of these other risks we establish reserves to mitigate their effects. For example, a good helping of reserves reduces the financial effects of job losses, predicted and unpredictable expenditures, business cycles, etc. The identification of needs, areas of fragility and the understanding of our risk exposures helps determine the appropriate amount of reserves. The establishment of these reserves is fundamental and paramount to efficient portfolio construction and ongoing management.

*For all of its uncertainty, we cannot flee the future. ~ Barbara Jordan*

Deeper in the investment or portfolio world there are at least two other important risk-mitigating or “insurance” policies in our virtual toolbox (both affected by the inclusion of reserves). One is diversification – the simple concept of mixing together risky or volatile assets in such a way that some of the inherent risk is eliminated by reducing exposures to unpredictable occurrences and eventualities. Varying asset classes on the equity side of a portfolio and the inclusion of the reserves and other less risky or less volatile fixed income holdings spread the risk in a portfolio to reduce its effects on the whole.

The other risk-reducing factor is time – it is predictable with a reasonable level of certainty that the equity portions of our portfolios will have higher returns over long periods of time than the less volatile fixed income portions. It is not predictable or certain that higher returns will occur over shorter time periods. This is where the reserves (fixed income and cash) play another role – providing necessary cash (predicted or not) without invading the equity side of a portfolio until it has had sufficient time to *season*.

*There is no such uncertainty as a sure thing. ~ Robert Burns*

We have filled the pages of our communications over the last months with discussion and explanations of other risk controlling or protective elements in our portfolio work. We won’t rehash these here, but note that they are simply extensions of the concepts mentioned above – reserves, diversification and recognition of the risk restraining nature of the long-term. It is not and, we predict, will not be of our nature to presume that securities markets are predictable. So, we won’t make predictions for which we cannot be confident; rather we will continue to search for opportunities to control risk where appropriate.

*Truth is confirmed by inspection and delay; falsehood by haste and uncertainty. ~ Tacitus*

The certainty of uncertainty permeates all we do. We spend considerable time analyzing and fine-tuning our work. We cross-train our folks to reduce the risk of not having them around, or for the privilege of assigning them to other duties. We read lots of books, articles and websites to gain additional knowledge and understanding. We analyze each portfolio under our care each and every month. We request and integrate information about our clients whose financial welfares are supported by our portfolio work – tax returns, plans, etc. We work very hard to enhance the certainties and mitigate the uncertainties in all our financial lives.

*Uncertainty is a sign of humility, and humility is just the ability or the willingness to learn. ~ Charlie Sheen (Charlie Sheen?)*

A lot of what we know we learn through conversation with our clients and friends. So, call or come see us when you can.

God Bless,

**Doug**

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