



SUMMARY PERSPECTIVE

It is helpful to remember that as late as July, people were questioning the viability of U.S. and global markets after the near-meltdown of Greece, Portugal, Spain and other Southern European economies. Each quarter, each year, seems to bring a new thing to worry about. But looking back over 70 years, the U.S. equities markets have managed to post long-term gains despite some fairly serious disruptions, including World War II, the Cold War, the conflict in Vietnam, stagflation and the oil shocks of the 1970s, the market crash of 1987, the bursting of the tech stock bubble, and the subprime mortgage meltdown and collapse of Bear Stearns, Lehman Brothers and AIG in 2008.

Indeed, if you look at the long-term movements in the stock market since the Great Depression, all of those events, which seemed pretty dire at the time, look like blips on the screen, small dips in the long-term growth of value in American and global publicly-traded enterprises.

There is no doubt that there will be other events in the future which will seem to endanger--or at least derail--the long-term growth of capitalism. But based on the history of the past two centuries, one might feel confident that whatever challenges await us, people will find ways to build additional value.

The final three months of the year may bring the market indices back up to pre-meltdown levels, or they may disappoint. We continue to be cautious based upon many factors, emphasizing moderate, reduced risk and income-producing investments. In short, we continue to implement strategies intended to balance the competing needs for inflation-adjusted capital growth and protective capital preservation. In turbulent markets all clients may take comfort from income-producing investments that help provide consistent returns. Indeed, we continue to refine and add to income producing investments, including tax-advantaged strategies. Our most recent addition is the Steelpath MLP Select 40 Institutional Fund. This fund invests in equities that primarily derive their revenue from energy infrastructure assets; the investment objective is long-term capital appreciation and attractive current income (roughly a 6% yield).

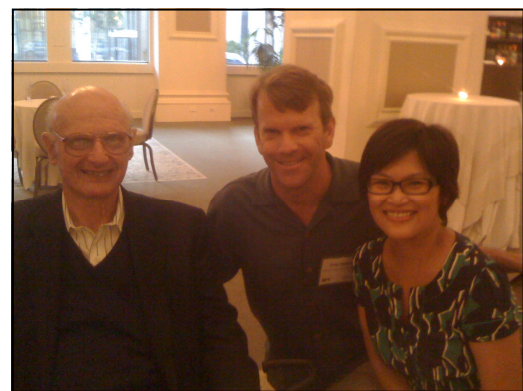
Between now and year-end we will continue to monitor portfolios with special attention to the evolving tax

environment. We will send relevant email updates as well. Our next quarterly newsletter will feature a 2010 year-in-review along with a detailed forward-looking investment update. In the meantime, please call anytime if we may be of service.

NAPFA and Nobel Prize Winners

We recently attended the NAPFA Practice Management & Investments Conference in San Diego. The NAPFA (National Association of Personal Financial Advisors) is the nation's leading organization dedicated to the advancement of objective, fee-only wealth management. Members are required to meet the highest standards for professional competence while adhering to rigorous clients-first fiduciary standards. Over the last fifteen years NAPFA Conferences and colleagues have played a vital role in building the *HAS* professional network that includes relationships with the industries best and brightest. The following article captures highlights of one of the most notable speakers at the conference: Todd Bucholz, former White House director of economic policy. Nobel Prize winning economist Bill Sharpe provided an insightful presentation on investment and retirement planning which we'll likely highlight in a forthcoming article.

This past week Dr. Harry Markowitz, yet another Nobel Prize winning economist and founder of Modern Portfolio Theory (MPT), presented before a select group of advisors. His Theory provided the mathematical foundation for



Dr. Harry Markowitz with Craig & Selma

portfolio management processes employed to this day. Markowitz demonstrated the trade-off between risk & return and how diversification enables investors to earn the equivalent of a free lunch. The Markowitz [Efficient Frontier](#)

is the set of all portfolios that will give the highest expected return for each given level of risk. He humbly admitted that his persistence and ongoing research likely played a role in his receiving the Nobel Prize.



Craig with Dr. Markowitz

And now at age 83, he continues to have a very active teaching, speaking and consulting schedule. Both Selma and I enjoyed a lengthy chat with Dr. Markowitz and I received an invite to a dinner honoring the good doctor. That is Dr. Markowitz checking his dinner menu while I pose for the picture. After he read the menu we had much to discuss, including GuidedChoice, the business he co-founded to help serve 401k plans. This business happens to compete with his Nobel colleague Bill Sharpe who founded Financial Engines. This company recently went public and is valued at \$550 million. Clearly both these men are very Sharp, Nobel capitalistic entrepreneurs.

Selma, who has worked at *HAS* for more than thirteen years, continues to be a valuable team member. Responsibilities include investments, trading, regulatory compliance and technical client service. In addition to having home-schooled her two children, she is a CFA Candidate (Chartered Financial Analyst), having passed Level 2 the rigorous CFA examination series that is the gold standard for technical investment analysis and research.

The State of the Economy

The question on the mind of many investors has to be: where is the U.S. and world economy headed? Are we moving toward a double-dip recession, or is the economy in the early stages of a long-term recovery?

At a recent industry conference in San Diego, financial advisors heard a keynote presentation by economist Todd Buchholz, former White House director of economic policy and, before that, economics professor at Harvard University. His presentation was extremely candid, describing the 2008-2009 economic meltdown as "the most tumultuous economic times any of us have ever been through," later noting that it was a period when the Beardstown Ladies investment club outperformed the leading brokerage house investment divisions, when Mattel, the company that makes little hot wheels cars, has more market value than General Motors, which manufactures real ones.

But haven't we emerged from complex economic times in the past without this lingering uncertainty about where things are going? Buchholz said that if you aren't sure what's going on, you aren't alone. Economists are discovering that their economic models have grown increasingly out of touch with the realities of the marketplace. One big reason is that the world has changed dramatically. "When the Berlin Wall was pulled to the ground, millions of workers who had been trapped on the other side were suddenly free to compete against you, me, somebody writing software in San Diego or assembling textiles in North Carolina," Buchholz told the audience. "When you add in India and China, you have billions of new workers in the global workforce, which pushes down labor rates and inflationary forces here at home."

Today, the American worker is caught between two negative forces. It's hard to negotiate for higher wages when more than a billion workers are competing for his/her job. At the same time, newly-industrializing nations like India and China are clamoring for commodities which raises the world price of everyday items like gasoline, cotton, cement, metals, food and whatever is made from those things.

So where do we stand today? Buchholz applauded the fact that the Federal Reserve Board has taken interest rates to zero and (as he put it) "stomped on the money supply accelerator." He doesn't expect this to lead to high inflation down the road because wages will be kept low by global competition for jobs, and because the new money is actually offsetting the 2008-2009 destruction of value in the real estate markets and the private sector. Unlike some

economists, Buchholz believes the fact that housing inventories and home starts are going down is a good thing, because it means that home prices will be primed to rise again.

Jobs? Buchholz conceded that the job market is brutal right now, but he thinks this is normal at this stage of a downturn. "Whenever you have a recession, companies fire people and cut costs," he said. "When business picks up again, as it has in the U.S., they don't immediately call them back. Instead, they say, hey, Bill, can you stay an extra hour? Or: hey, Joe, come in a bit early tomorrow morning?" Recent rises in temporary worker hiring and overtime may be a precursor to hiring back full-time employees.

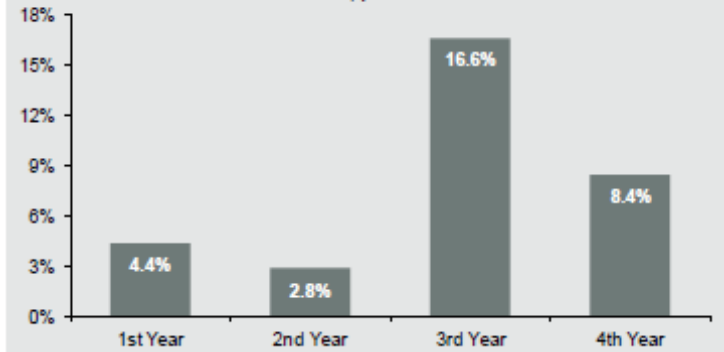
The bottom line? Buchholz doesn't expect to see a double-dip recession. "Consumers are showing more resilience and more composure than most professional economists anticipated," he said. "This is not a rip-roaring recovery, by any means. But earnings are better than expected, corporate cash on hand is greater than expected. Instead of a recovery that would grow the economy at 4-5% a year, we could see 2-3% growth for a while."

Is there a danger to this cautiously positive vision? Buchholz said that what worries him most is a backlash against capitalism in the U.S. Congress, which might impose trade barriers to protect U.S. industries. "There were three terrible policy mistakes that the government made which caused the Great Depression," he told the group. Two of them are unlikely to be repeated: the Federal Reserve allowed the money supply to collapse by 30%--the opposite of what the Fed is doing today--and Congress raised taxes dramatically across the board. But the third mistake was passing significant tariffs, triggering retaliation from other companies--and suddenly world trade fell by 40%. "I am very concerned today about trade tensions brewing around the world," said Buchholz, "even among friendly countries with the U.S."

At the end, Buchholz said that the most pressing issue, in his mind, is getting our educational system back into the global top tier. He said that increasingly, wealth is measured by the application of education and intelligence, and the world is catching up to the U.S. "Whoever harnesses intelligence most," he told the group, "will prosper most in the 21st century."

Stock Market Returns by Year in Presidential Cycle

1940 - 2008 based on election dates, price return



POLITICAL PERSPECTIVE

Looking ahead to the November Election, there is some reason for optimism regardless of one's political affiliation. Despite all the current uncertainty and economic turbulence, this coming year is the 3rd year in the Presidential Cycle which has produced the best returns by a wide margin going all the way back to 1940.

All content in this newsletter is intended as general information, not specific advice. Performance data listed is for illustrative purposes only. Past performance is no guarantee of future results. Portfolios are personalized and often consider many variables, including investment objectives, age, time horizon, risk tolerance, client requests and tax variables. Information contained herein has been obtained from sources believed reliable, but not guaranteed

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