

## Security Is a Trusted Adviser

Charles Schulz, creator of the comic strip *Peanuts*, may have been the greatest philosopher of the second half of the twentieth century, perfectly capturing our anxieties, insecurities and neuroses. In one of our favorites, Charlie Brown defines security to Peppermint Patty as riding home in a car with your parents, sleeping in the back seat, knowing that your parents are doing all the worrying and taking care of everything. He disheartens Patty by pointing out that this security cannot last. Once you grow up, it will never be that way again.

Wow, now we're depressed. Admit it or not, we spend our lives trying to recreate what we remember as the idyllic world of childhood - no responsibility, everything taken care of. Of course, we forget the torments of the playground, the stresses of the classroom, and the monster that was going to crawl out from under our bed and eat any body part left uncovered by the blanket.

As investment advisers, the anxieties, insecurities and neuroses we see every day relate to the financial markets. Even when we overcome our own issues, at times we feel like Lucy sitting at her psychiatrist's booth. In the interest of full disclosure, we charge more than five cents... but we are confident our advice is better than Lucy's. In the markets, we witness a bizarre combination of overconfidence, timidity, arrogance, dread, hubris and fatalism - and that is just reading the business pages over breakfast.

This emotional instability is understandable given the recent decade-plus of negative returns from stocks, the collapse of the technology and real estate booms, the failures of Worldcom, Enron, Fannie, Freddie and Lehman Brothers, the war on terror, and the bankruptcy of former American icon General Motors. We live in a paradoxical world in which a money fund can "break the buck," investors flock to the financial strength and governing probity of the emerging markets and municipal bond managers brag about how few full-faith-and-credit state bonds are in their portfolios. What to do?

We believe your best choice is to rely upon a competent, trustworthy adviser to help shepherd you through these trying times. The recent market chaos has definitely thinned the ranks of do-it-yourselfers and traditional brokerage clients, but it also led many to rely on sellers of illiquid, black-box investment products, commonly lumped under the genus of alternative investments.

*“Better be despised for too  
anxious apprehensions,  
than ruined by too  
confident security.”*

-- Edmund Burke

“Alternatives” are perhaps the worst class of investment products, and illiquid alternative investments are the worst specimens of this class. They are unreasonable because they rarely are sold by honest appeals to reason. The richness of the fees paid to their creators and promoters is matched by the paucity of regulation applied to their creation and sale. They are marketed with hints of the genius of their managers and the immoderate gains attainable upon their success, while ignoring the equal appeal of

high fees to *bad* managers and the severe losses assured upon their likely failure. They are the roach hotels of the investment business – easy to enter, difficult to exit.

Many of the Madoff-like debacles in recent years compounded the vices of lacking regulation, transparency and liquidity with the additional lack of even rudimentary safeguards against fraud. The simple step of requiring an independent custodian for their investments would have saved investors from the most egregious cons. Another common denominator was the promise or supposed record of outsized gains despite severe downturns in the market. Returns too good to be true turned out to be false. One good signal of the trustworthiness of an investment adviser is that, like a good doctor, they are willing to tell you things you do not want to hear but need to hear.

Sellers of alternative investments cite so-called research indicating that investors eschewing liquidity have reaped larger than normal gains. While this may have been true for certain past investments, it led investors to confuse causation and correlation. Lack of liquidity is still a vice, even if at times it occurs with the virtue of good returns ~ but the vice does not *cause* the virtue. A winning marathoner may experience pain, but any pain you feel sitting in your armchair will not result in you receiving a laurel garland for your head.

As in any endeavor, consider the reversibility of your decisions. There are a lot of do-it-yourself plumbers, doctors and investment managers. If you try to do your own plumbing or hire an incompetent, untrustworthy plumber and things take an ugly turn, you wind up with a wet floor and, perhaps, paying a good plumber premium weekend rates, but the problem is fixable. If you make a big mistake in self-managing medical care or hiring an incompetent, untrustworthy doctor, it's a bigger problem ~ you can't fix dead. We believe investing is closer to doctoring than plumbing. An investment mistake, if sufficiently unfortunate, is not recoverable. You can't just decide you'll make it up by earning 50 percent a year for the next decade.

We suggest hiring a competent, trustworthy adviser... but anyone suggesting you purchase unregulated, opaque and illiquid alternative investments probably disqualifies themselves from competence and trustworthiness. Investors may feel a lack of security because they mimic Charlie Brown repeatedly trying to kick the football that Lucy holds. No matter how hard they convince themselves that this time is different, they always wind up on their back staring at the sky.