April 2013

Dear Clients and Friends:

I love information. The problem is that we live in a world of information overload. Over the course of the last few months I have read many, many blogs and newsletters and investment analysis and white papers and other views on investing, the market and investor behavior. This ~~procrastination~~ research gives me many different ideas for my quarterly letters and also helps me to formulate my own opinions. The total overload of information can make decision making hard for the investor; as well as make it hard for me to decide on a particular topic to write about. I will do my best in the upcoming paragraphs to develop a meaningful point.

I began working at Sterne Agee 13 years ago in July of 2000. Outside of starting working in the securities markets in early October 1929, the last 13 years have been probably the worst and most volatile time to be in my profession and to be an investor. That is not to say that money has not been made by investors during the past 13 years, but with 2-50% drawdowns, 2 bubbles bursting and a myriad of other crises, it has not been pretty. More than anything the past 13 years has dramatically changed the behavior of investors and investment professionals relating to risk in their portfolios and aversion to loss. Investors have only recently begun to consider increasing their stock allocation; after an over 100% increase in stocks since March 2009 and in the midst of a quite strong run-up in equities without any correction. Can markets really keep going up? Sir John Templeton said:

> *"The 4 most dangerous words in investing are: "this time it's different".*

Bill Gross of PIMCO wrote last summer:

> *"Boomers can't take risk. Gen X and Gen Y believe in Facebook, but not its stock and Gen Z has no money".*

The boomer generation probably didn't really understand the risk they were taking during the 80s and 90s. Now they are acutely aware of the risk and intentionally seek to avoid it, but they still expect the returns. Even worse, now is the time this boomer generation most needs those strong returns. We are taught with investing that you should be aggressive when you are young and then get more conservative as you age. Nothing wrong with that, but consider the benefit of a 10% increase in your portfolio when you have $1million vs when you have $10,000. It could be argued that it is more beneficial to invest for higher returns when you are at your peak earnings and asset accumulation.

Bob Seawright wrote a great piece on his blog titled *Investors' 10 Most Common Behavioral Biases*. Each one of his "biases" is a great read, but his discussion on "Loss Aversion Bias" is germane to our discussion here. In it he states that studies show that losses are felt in our brains 2.5x as strong as gains. Meaning our despair from losing $100 is over 2x more than our joy of making $100. I know some people just do not want to lose and it makes me think of my workout partner. At 15 years my senior, he will not allow me to beat him at any activity in the gym. Similar to the old SNL skit of the Russian weightlifter who in his desire to lift the bar weighing 1500 lbs lifts so hard, he pulls his arms off. Maybe that is a bit extreme. The skit was called the "All Drug Olympics". Bottom line is that we do not need to allow ourselves to fear loss so much that we avoid opportunities to achieve our financial goals. The past 13 years have been an absolute roller coaster and we need to always remember it, while maintaining an investment posture that is appropriate for each person's individual situation.

Last quarter was extremely strong for US stocks. The S&P 500 posted a return of 10.61% for the quarter, but on the flip side emerging markets stocks were down -1.57% and developed foreign stocks were up 5.23%. It is obvious that the US has shown extreme resiliency in recent months and that has given investors some welcome good performance in portfolios. For the most part, managers that Bussey Capital Management uses in client portfolios are having a good year. We know that the market will have a turn down at some point and we hope that the history of downside protection that our managers have shown in the past will hold true.

I hope that you are all enjoying the beginning to spring. I look forward to hearing from you soon.