

Market Commentary – January 1, 2010

Douglas D. Vander Weide, CFP® / William J. Streff, CFP®, CEBS

The New Year always brings predictions of what is to come. In the financial industry, regardless of the time of year, there are plenty of 'experts' willing to provide the media with opinions on the future direction of markets.

It is not often appreciated by investors, but there is a cozy relationship between the media and the traditional investing industry. In short, they both want you to believe that certain individuals have uncanny powers of foresight. For stock and bond analysts, promoting this illusion of insight is helpful, because it justifies their fees and keeps people trading. For the media, the myth that certain remarkable individuals can reliably forecast market prices is helpful, because it provides endless "gee whiz" stories for the readers/viewers who keep the advertising revenue flowing.

The fact is, no matter how smart individual analysts may be, and no matter how much they know about the companies and sectors they follow, in the end they are hostage to unforeseen events. These might include changes in federal laws and regulations, or the discovery of a new technology that renders a previously innovative solution obsolete, or even a breakdown in an obscure area of the mortgage market that unleashes a global meltdown in the banking industry. (Sound familiar?)

VW Advisors recognizes the folly of predicting the unknown, and manages that. The bad news is neither we nor anyone else knows what the future will hold. The good news is we don't *need* to know in order to have a successful investment experience. We simply have to rely on a few fundamental principles:

- ***It is impossible to identify superior investment managers in advance.***
Capitalism breeds competition, and that makes markets difficult to beat. With millions of participants competing in capital markets, it is hard to identify in advance anyone who can systematically beat the market. We eliminate the risk of choosing the wrong manager by following a broadly diversified approach that does not rely on stock/bond picking or market timing.
- ***Diversification is the only antidote for uncertainty.***
Although diversification neither assures a profit nor guarantees against loss, a properly constructed and well-diversified portfolio is a key component of a successful investment experience. We design portfolios that attempt to capture certain risks and eliminate others, depending on your preference and capacity for various types of risk.
- ***There is no free lunch. Risk and return are related.***
Much like a football player who chooses to play without a helmet, you should not expect to be paid more for taking risks that can easily be avoided. Higher expected returns only come from bearing more risk that cannot be diversified away. We focus on eliminating risks that you should not expect a reward for taking, such as concentrating your portfolio in just a few stocks.
- ***We don't guess. We invest.***
Rather than relying on speculation, blind faith, or anecdotal evidence, our philosophy rests on a foundation of evidence from the science of investing. We concentrate on what can be controlled: Managing the transactional costs of investing, reducing the impact of taxes, and taking a long-term view. In turn, we design portfolios that are cost effective, tax efficient, and disciplined.

VW Advisors knows that good investment management is not about media hype or making forecasts. Good investment management is about understanding and managing risk around an overall financial plan. Please contact us at any time you feel we may be of service.

