



Live your dream.

## Lessons From 2011

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The year was one of tremendous surprises, which led to increasing global and political economic uncertainties, higher volatility and an enormous flight to safety by investors.

### **“No part of the world was immune from troubles.”**

In 2011, we had a massive earthquake in Japan, Arab uprisings, US credit downgrade from AAA to AA, European sovereign debt issues, Chinese and Indian slowdown and, on top of all this, the deaths of two nefarious political leaders – Gaddafi and Kim Jong il.

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So, what have we learned from this troubled year and how can we benefit from these lessons going forward?

#### Lessons

##### **1. Don't trust predictions or the consensus views**

At the beginning of 2011, the markets rocketed out of the gate and predictions were for a great year. Multiple reasons were given: the third year of a US election is generally positive, interest rates were low, emerging markets were growing. The issue here is that consensus views are really herding. When enough people watch business TV, it leads to a critical mass for a particular idea – whether the idea has merit or not. And this mass then takes a particular action. The media, at the beginning of the year, were very buoyant in their predictions, and ultimately the masses made a wrong decision based on this group-thinking. The media said that the economy was recovering, that the US dollar would fall further and that gold was the new currency. As we can see at the end of 2011, these consensus views were wrong. The economy did not recover,

the US dollar did not fall, and gold was not the savior expected. Even in the past, these superficial truths have harmed investors. Think Enron, Saddam's weapons of mass destruction, Citigroup's "financial supermarket" strength, uninterrupted growth of Fannie Mae and the housing market increase in the US, and the technology paradigm shift in 2000.

##### **2. Government stimulus is not forever**

Because of 2008, the US government injected a lot of liquidity to keep the markets afloat. In 2009 and 2010 we saw a buoyant market based on this liquidity. However, by 2011 this stimulus had begun to run dry. The need for continuous stimulus is a poor way to run an economy, as this stimulus has to come from somewhere. And that somewhere is now getting even more indebted, so there will be even less stimulus available in the future. It's a mistake to believe that the government will always come to bail the markets out. It's also a mistake to leave your retirement and planning duties to the government.

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##### **3. Safer than gold is the US dollar**

In 2011, with all of the troubles outlined above, what we saw was a run to safety, and it wasn't gold. It was the US dollar. So those who believed that

gold was the ultimate store of value were mistaken. Gold is an asset class, and not a port of safety. An increase in price in something does not mean it is a better investment. Too much attention is paid to the appreciation of an investment, as opposed to the risk that has now increased in that appreciating investment. A good thing to keep in mind is the risk of any asset as well as the appreciation.

#### **4. Be prepared for surprises**

It's said that if life were predictable, it would cease to be life. The same can be said of the markets. 2011 was a year full of surprises. An Arab revolution no one predicted. A downgrade to the US's formerly pristine debt rating. European debts that threatened the future of the continent's common currency, and an earthquake that took out a large amount of manufacturing within Japan. In fact, every year we have had surprises in the markets, and these are normal. So we should expect some more surprises in 2012.

#### **5. Diversification and rebalancing are your friends**

The future is truly unknown. There are predictions (guesses) about it, and they are fun to read but dangerous to believe in. Since we do not know what 2012 holds for us, the best weapon we have is to use the tools of diversification and rebalancing to take us through. Diversification and rebalancing do not avoid losses, but they do soften the impact of them and also allow us to take advantage of opportunities.

2012 may not be a perfect year. We can expect volatility. We can expect surprises. What you need to do is review your financial plans against a backdrop of reality – not hope or guesses. It would be wise to meet with your financial advisor and discuss your financial plans.

*We will be happy to meet with you to evaluate, review and discuss any aspect of your financial plan.*

