

# Van Sant & Mewshaw Inc.

Registered Investment Advisor

# Common Sense Advisor<sup>®</sup>

Volume 18 Issue 1

January 2010

## MARKET MANTRA

### *ANALYSIS/COMMENTARY*

One thing we can say with certainty about 2009, it was much more pleasant than 2008 and we got a lot more sleep. This time last year we couldn't turn on the television, radio, read a newspaper or browse our favorite websites without being inundated with dire predictions of the pending economic collapse accompanied by Dow 2000. Of course with such saturation of these ominous prognostications we were comforted. For, if

*(Continued on page 2)*

## NEWS AND UPDATES

### *Schwab Statements Get a New Look*

Charles Schwab has changed their customer account statements beginning January 2010. The new statements will provide the same detailed information as the old and in some instances more. The new statement is designed to provide a wide range of information in a format that is easy to read and understand. Also, if you wish, you may choose to receive your monthly account statements from Charles Schwab via electronic delivery. As always, if you have any questions or require assistance please contact your Investment Counsellor at VSM.

### *Year Ahead Planning*

A reminder, now is a good time to review your portfolio and re-focus on your investment objective and strategy. One of the most common reasons for a portfolio to fail to meet its stated goal is miscommunication between the client and Investment Counsellor. If you have not done so recently please call to schedule a portfolio review.

### *Capital Gain and Loss Statement for 2009*

#### **IMPORTANT!!**

The Capital Gain and Loss Statement is not included with the quarterly/annual VSM statements, it is sent out by request only. Please call VSM if you wish to receive this statement.

### *Required by the SEC*

Rule 204-3(a) of the Investment Advisor Act requires all Investment Advisors to offer, annually, a copy of their Form ADV, Part II to all of their clients. Please consider this as our offer to deliver our most recent Form ADV, Part II. To request a copy call 410-825-8844 or visit the VSM website at vs-m.com.

### **Returns 2009**

INDEX	YTD	1 YEAR
S&P 500	+23.50%	+23.50%
Dow Jones Industrial	+18.80%	+18.80%
Nasdaq	+43.90%	+43.90%
Russell 2000	+25.20%	+25.20%
Foreign Stocks	+27.70%	+27.70%
Aggressive	+28.70%	+28.70%
Growth	+23.82%	+23.82%
Balanced	+18.93%	+18.93%
Moderate	+14.05%	+14.05%
Conservative	+9.16%	+9.16%
1YR T Bill	+1.60%	+1.60%

For information about our Managed Account Services we can be reached at (410) 825-8844

Minimum Account Size \$150,000.00

there is anything certain when it comes to Wall Street it's when the self professed "experts" sing in chorus, they're almost always wrong. We have no doubt it is the same collective mentality served with hubris which proclaimed the Titanic unsinkable and provoked Custer to ride into the Little Big Horn to teach a few troublesome Indians a lesson. The majority of advice offered up to the investing public was confined to a limited spectrum of "lighten up on equities and move to bonds" to "get out now while you still have something left". Indeed, such a prevailing attitude gave us the confidence to write in the January 2009 issue of the *Common Sense Advisor*, "...stocks have reached a level of cheapness that hasn't been seen since the early 1980s and can be expected to deliver total returns annually of 10% or better over the next 7 to 10 years. That's the good news. The bad news is that we most likely are not near a bottom and certainly not at the start of a bull market. It is possible that we are headed lower before this bear market ends, to an extreme undervaluation of equities. But before we reach a possible low, the probability for a soaring rally of 20%-25% is very high." It would be another sixty plus harrowing days before the decline in equities prices ceased on March 9<sup>th</sup>. And the market did indeed give us a soaring rally springing from those March lows to finish 2009 with double digit returns. We have been pleased with the empirical result of our investment methodology of managing risk and the positive effect it has had on our client portfolios during that precipitous peak to trough drop of 60% in the equities market (S&P 500). Unlike many of their contemporaries our clients have weathered this financial tsunami well, emerging with no catastrophe or irreparable

damage to their financial well being. Of course, this now begs the question; Now what? We state again we don't believe that we are in the beginning of a new secular bull market. The elements which have historically marked the bottom of bear markets and the beginning of new secular bull markets are simply not present, based on historical risk/return characteristics. Also, on a valuation level the S&P is by no measure undervalued. This by no means implies that the market will start on an immediate downward spiral. Considering the combination of historically low treasury yields, an oversold dollar, and anemic market action the probability is high that the market will be confined to a trading range going from overbought to oversold, frustrating and confounding investors. Moreover, history shows that markets can go into long periods, consisting of ten years or more, of very low cumulative returns. The most recent example of such a period is the last ten years. For the period 1999 to 2009 the S&P 500 produced a meager annualized return of (-0.95%). Furthermore, such periods are not limited to U.S. markets. For the nineteen year period 1989 to 2008 the Japanese market provided investors with an annualized compound negative rate of return of approximately -2.01%. But such periods are not a death sentence for investors. A diversified balanced portfolio (60% equities and 40% short-term bonds) of nine asset classes spread over foreign and domestic markets, rebalanced on an annual basis, for the same ten year period produced an annualized return of 5.52%. So what are the next ten years going to produce? We don't know. But we do know our method of managing risk for return has served our clients well. It has proved itself under fire. We intend to sleep well in 2010 come what may.

#### HISTORY SHOWS THAT EQUITY MARKETS CAN ENTER LONG PERIODS OF LOW RETURNS

Index / Benchmark	Start	End	Years	Annualized Return	Annualized Standard Deviation
DOW	9/1929	11/1954	25	0.07%	24.96%
DOW	2/1966	10/1982	17	0.05%	15.25%
DOW	2/2000	12/2008	9	-2.44%	14.73%
S&P 500 Index	12/1999	11/2009	10	-0.57%	16.23%
VSM 60/40 Portfolio	12/1999	11/2009	10	5.52%	10.45%

Source: Calculated by Rydex/S&P data from www.dowjones.com, 2009 and Morningstar.

## NOTABLE QUOTES

“What’s the best way to get through a debt crisis? Straight through was our advice last week. For at least a thousand years, the business cycle went round and round without help from central bankers or economists. It is only since these geniuses have been on the case that really serious problems have arisen. The Panic of 1920 – in which the US government did nothing but cut taxes and spending – was quickly forgotten. The Panic of 1929, on the other hand, was followed by massive rigging and jiving by the authorities. It took 20 years and a world war to overcome; today it is still remembered as the Great Depression.” (*Kiss of Debt*, Bill Bonner, *The Daily Reckoning*, 10/30/09)

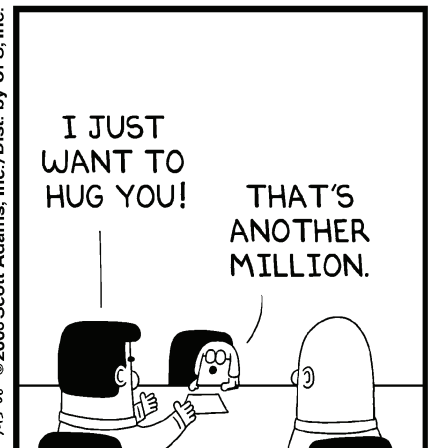
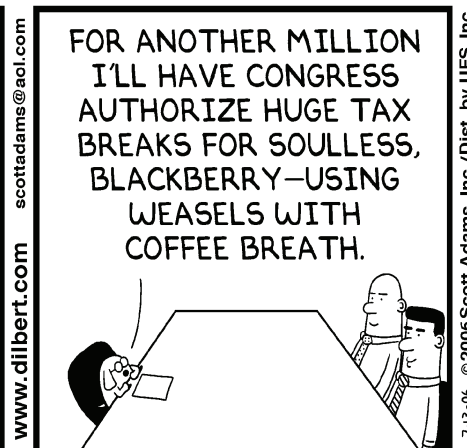
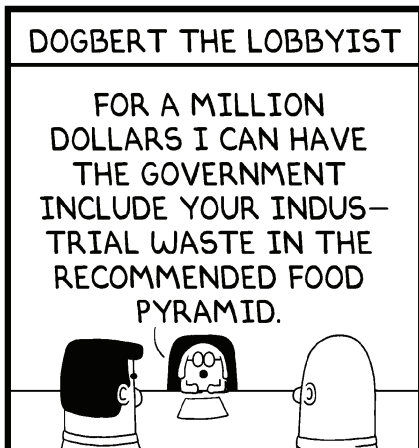
“As experts debate the potential speed of the US recovery, one figure looms large but is often overlooked: nearly 1 in 5 Americans is either out of work or underemployed. According to the government’s broadest measure of unemployment, some 17.5 percent are either without a job entirely or underemployed. The so called U-6 number is at the highest rate since becoming an official labor statistic in 1994. The number dwarfs the statistic most people pay attention to the U-3 rate which most recently showed unemployment at 10.2 percent for March, the highest it has been since June of 1983. The difference is that what is traditionally referred to as the “unemployment rate” only measures those out of work who are still looking for jobs. Discouraged workers who have quit trying to find a job, as well as those working part-time but looking for full-time work or who are otherwise underemployed, count in the U-6 rate.” (*The Real Jobless Rate*, Jeff Cox, *CNBC* 11/19/09)

“Hugh McGee is cutting the price of Guinness by about 20 percent at his bars and hotels in the Irish town of Letterkenny to keep customers coming across the border from Northern Ireland after the euro’s surge against the pound. McGee reduced the price for a beer this month to 3.50 euros (\$5.18) at his hostelry after the pound’s 12 percent drop against the euro in the past year led customers from the U.K. province of Northern Ireland to stay home. “We can’t devalue, but our neighbor can and has, and left us high and dry,” he said.” (*Irish Cut Beer Prices After Left High and Dry by Pound Slide*, Fergal O’Brien and Simone Meier, *Bloomberg.com*, 10/28/09)

“Almost a year after a court dismissed a complaint against Wal-Mart over its 401(k) plan fees, an appeals court has brought the case back into play, an indication that judges may be siding with individual investors over excessive mutual fund fees in retirement plans. On Nov. 25, the U.S. Circuit Court of Appeals reversed an October 2008 decision by a U.S. District Court in the Western District of Missouri to dismiss the complaint filed in Braden v. Wal-Mart Stores Inc. The plaintiffs alleged that fees associated with the plans’ 10 mutual funds resulted in losses of tens of millions of dollars in retirement savings. The complaint also alleges that Wal-Mart’s fiduciaries didn’t meet their duty by choosing retail funds for the plan funds instead of their less expensive institutional counterparts.” (*Controversial 401(k) fee suit gets new life*, Jessica Toonkel Marquez, *Investment News*, 11/30/2009)

### DILBERT BY SCOTT ADAMS

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## Core Asset Allocations December 31, 2009

AGGREGATE INDEX	CONSERVATIVE	MODERATE	BALANCED	GROWTH	AGGRESSIVE
Equity	20%	40%	60%	80%	100%
Fixed Income	80%	60%	40%	20%	0%
YTD Return	9.16%	14.05%	18.93%	23.82%	28.70%
One-Year Total Return	9.16%	14.05%	18.93%	23.82%	28.70%
Three-Year Return	3.49%	1.34%	-0.80%	-2.95%	-5.10%
Five-Year Return	3.74%	3.03%	2.33%	1.62%	0.91%
Ten-Year Return	4.02%	2.95%	1.87%	0.80%	-0.27%
Worst One-Year Return	-6.57%	-15.50%	-25.57%	-33.79%	-43.17%
Worst Three-Year Return	-1.93%	-1.89%	-6.71%	-11.51%	-16.28%
Best One-Year Return	17.37%	23.17%	30.98%	39.09%	47.34%
Best Three-Year Return	12.27%	16.59%	21.27%	25.97%	30.68%

**Risk and return are inextricably intertwined.  
Do not expect high returns without high risk and safety without low returns.**

### THE PURPOSE OF THE CORE ASSET ALLOCATION

Our Core Asset Allocations are hypothetical model allocations which reflect a logical, passive, strategic asset allocation for long-term investors who are subjected to varying degrees of risk. They are based on our evaluation of the historical long-term risk and return relationships of the asset classes, and what we consider to be realistic and reasonable expectations going forward. It is the starting point for our strategic active asset allocation process. The Core Allocation will serve as a benchmark against which to measure our value added.

The Core Allocation is the asset allocation that we will implement when our conviction level about any specific asset class is not high enough to justify changing the asset allocation mix. It gives us a sensible long-term allocation, based on sound research. It gives us a constant frame-of-reference against which to measure the risk and return relationship between actual client accounts and their respective benchmark represented by the Core Allocation.

All performance results of the Core Allocations are based on actual index funds which have been model/back-tested for the relevant asset allocation. The Core Allocation construction and the subsequent results were achieved with the benefit of hindsight and in no way does it reflect an actual portfolio result. The Core Allocations performance does not reflect management fees or transaction cost associated with the management of actual portfolios. There are limitations inherent in model allocation. In particular, model performance may not reflect the impact that economic and market factors may have had on the advisor's decision making process if the advisor were actually managing client money. This report should not be construed as advice meeting the particular needs of any investor. Investors are advised that past performance is no guarantee of future results. Historical data provided by Morningstar and made available upon request.