WISLAR WEALTH MANAGEMENT, LLC

Optimum Wealth & Life Strategies Second Quarter 2008

The Wall Street We Once Knew

The financial storm started in full force in August of last year. Sub-prime, a term most of us had never heard of a couple of years ago started making front page headlines. Financial companies started writing off assets left and right, missing and cutting earnings and guidance significantly. Companies once revered were on the verge of failure. How could things have changed so quickly and drastically?

When most of us think about investing we consider such factors as diversification, possible return and risks. But, somehow these simple rules are sometimes lost in the midst of greed. We've all had investments that didn't work. Investment geniuses are correct maybe 55% of the time, but through diversification, homework and discipline we make money.

"So what happened to Wall Street? Leverage."

So what happened to Wall Street? Leverage. As Bear Stearns collapsed in March, their balance sheet was leveraged 31 to 1. Yes, they took it to the extreme, but others have as well. Goldman Sachs, considered a gem, recently reported their leverage at 18.5 to 1; many other firms are leveraged in the mid 20's to 1. It doesn't take a big change in the value of the underlying holdings if you use that much leverage to run into trouble.

Sub-prime was the first shoe to drop and it alone erased years of earnings for many of the financial companies. There are more shoes out there; credit card debt, Alt-A-Mortgages and more. But even if nothing else happens, Wall Street will be in contraction for years.

Yes, this has happened before, be it the "Emerging Markets Debt Crisis" or the "1987 Market Crash." But something happened this time that has never happened before. The U.S. Government had to step-up-to-the-plate with taxpayer money to save the day.

During the "Great Depression" the Government bailed out the banking industry. But with it came regulations, namely the amount of leverage the banking industry could use going forward. Debates are already starting about how Wall Street will be regulated. We can't be sure how strict the rules will be, but if they limit leverage to 10 to 1 a lot of firms will have to shrink their businesses by more than half; 5 to 1 they'll have to shrink by 75%.

We've all seen the "talking heads" on TV recommending the financials. Sure some are probably going to turn out to have been great values. But if the industry is required to shrink its business more will turn out to be duds. Our best guess is the industry will be in decline for the next five years.

As a final thought, "How can you expect them to manage your money if they can't manage their own?" We continue to be significantly underweighted in the financials.

As We Grow

As you can see, our newsletter is in the midst of a face list. We are happy to announce that by next quarter our smiling faces will adorn the photograph on the front. The addition of Dresdner & Company has been moving along nicely and it, too, should be completed shortly. We have been very pleased with the synergies of the two firms.

A large portion of this edition of *"Optimum Wealth & Life Strategies"* focuses on energy and alternative energy. We see significant opportunity going forward to make money for our clients by participating in the upcoming Energy Revolution. Our overweight in the traditional energy arena for the past several years has propelled us to superior returns and the transition to alternative energy over the next few decades also brings significant opportunity. As our part in the effort to conserve energy, we invite you to receive your statements, quarterly performance reports, confirms and corporate correspondence via secure e-mail. Please call Nyda at 888-921-8004, as she will be happy to help you set it up.

To enhance the way we manage our accounts, our preferred custodian Fidelity is also in the process of improving their offering by rolling out several new technology innovations which will support us in providing our clients with the best possible relationship.

The Alternative Energy Revolution

As I write this article the price of oil has passed $130 per barrel and gas at the pump is at its all time high. I remember in the late 70's as oil rocketed higher, the coins from beneath the couch cushions no longer cut it at the pump. I can't imagine flipping burgers for minimum wage and paying $80 for a week's driving today.

Throughout history humankind has been faced with many challenges. Early on it was just surviving day to day. Later, as family groups became larger, hunting and gathering fell short so we started cultivating crops. Groups then started trading with each other again improving living standards. Jumping all the way to just the last century the biggest jumps forward were the Industrial Revolution, the Medical Revolution and the Technology Revolution. All of which have moved humankind forward improving productivity, longevity and living standards to levels not imaginable just 50 years ago.

Today we face new challenges, and like the past 100 years or even ten thousand years, humankind will rise to the occasion. As the world economies continue to develop, the demand for the energy supply grows steadily, and with the increasing use of fossil fuels not only does the price increase, we increase the output of pollutants.

The majority of Alterative Energy sources is not new technologies but could never compete historically on price. When computers were first invented, they too were not economically competitive; they filled an entire room, took many people to manage and only had the computing power of today's microwave oven. We have now reached price equilibrium on some Alternative Energy sources; the cost to produce a megawatt using natural gas has reached the cost of solar or vice-a-versa.

Many of the new technologies will not survive. There are currently riots in Egypt because the price of rice has doubled. Using food to power your car probably is not a long-term solution; the process of converting it to fuel in itself has a devastating effect on the environment.

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But technologies such as solar and wind power, if manufactured properly, have little negative environmental effects.

For the past several years we have had a significant overweight in the energy sectors which has helped propel us to superior returns. This overweight will continue, but Alternative Energy will start to make an appearance within this overweight. We have just added a solar company to our "Deep Value" list. Its stock price has recently dropped significantly with the market pullback; it now trades at only nine times the 2009 earnings estimate and is growing at 30%.

There are several benefits to be realized from the pending Alternative Energy Revolution including reduced greenhouse gasses that will eventually turn the tide on global warming, but also huge investment opportunities for us. The United States has been on the forefront of all major leaps forward over the past century and should again lead the way. When our children's children take high school history, one of the topics will be this very subject. They too will take pride in our ability to change.

Ringing the Bell on Bonds

A year ago we wrote about the outlook for Bonds with an article entitled "Reversion to the Mean…Bonds." As a refresher if you had bought long-term government bonds in 1931 during the low rates of the Great Depression and stayed with them until 1981 you would have had a negative return after inflation and taxes. Yes, a 53 year negative return. But if you were lucky enough to buy long-term government bonds in 1981 at the height of rates, your return over the next twenty years would have been 9.38% per year from a combination of coupon and appreciation as rates fell.

Yes, we are now "Ringing the Bell" on Bonds in general. Locking in a 4.5% rate for the next 30 years does not make sense to us. The economy is currently in recession, as it emerges and transitions back to growth, we expect rates to once again start a long march higher.

We will continue to use bonds to lower portfolio volatility, but will direct our focus away from long-term U.S. bonds and focus on the short/intermediate maturities and high-quality international bonds.

Nuclear the New Green Energy

Yes, compared to traditional coal-fired plants that spew tons of carbon and other pollutants into the atmosphere, nuclear energy is a strikingly clean alternative. It is difficult to pinpoint exactly when the world shifted from viewing nuclear power as a threat to seeing it as a safe, bona fide carbon-free energy source. It may have been on April 16, 2006, when Greenpeace cofounder Patrick Moore stated in the Washington Post, "My views have changed, and the rest of the environmental movement needs to update its views, too, because nuclear energy may just be the energy source that can save our planet from another possible disaster; catastrophic climate change."

You may be surprised to learn that some countries derive the bulk of their energy needs from nuclear power with no problems whatsoever. Of the electricity generated in France, 78% comes from nuclear power. The country now claims a substantial level of energy independence and almost the lowest-cost electricity in Europe.

China and the U.S. are also signaling growing acceptance of nuclear power. In fact, reports estimate that China could double its nuclear power capacity within the next 12 years. The United States is eyeing its own new nuclear reactors, with an announcement of two new plants planned for Texas.

For investors, the global environmental backdrop and the acceptance of nuclear power as a green energy source means opportunity. The activity among major players in the sector, which includes power generators as well as uranium exploration and production companies, right now is leading to a "radioactive gold rush." We are participating with a couple of companies on the "Core List."

Last November Al Gore became a partner at the venture capital firm Kleiner, Perkins, Caufield & Byers. His role is to find start-up funding opportunities in alternative energy including nuclear while helping the firm green-up its other portfolio companies.

As our energy needs grow along with the threat from global climate change, nuclear power has become an alluring solution to both investors and environmentalists. The hope is that the combination of the two will help drive important investment dollars to the industry in the near future. Let's hope Al Gore agrees.

Investment Performance and Why It Matters

One of our main missions is to find a way to be the best investment manager possible for our clients. We believe investment performance really does matter. It matters a lot.

Albert Einstein was once asked what the most amazing invention man-kind had ever come up with. His answer "compound interest." If you don't believe me, the next time you talk to a retiree who is receiving income from his or her portfolio, ask if they would like to get $5,000 a month from that million dollars instead of $4,165. Or ask a 40-year-old who's putting $15,000 a year into a 401(k) if an extra $20,000 of income annually in retirement sounds good. Or a 35-year-old setting aside $500 a month for junior's college if an extra $20k for tuition in 15 years would help. How many "No's" do you think you'd hear?

Assume you are 50 and have $1,000,000 and plan to retire at 65. If you make 7% per year your million will turn into $2,932,257, but if you improve your return to 8% you will have $3,399,677. Now you're retired and you want to live off of the money. Assuming the $2,932,257 continues to return 7% it will produce $205,258 per year, while the $3,399,677 at 8% will produce $271,974. The 8% gives you a 33% increase in retirement income.

There is an old Wall Street joke about a branch manager taking a big prospect for a walk at the harbor. The manager proudly points out all of the yachts that belong to his brokers. The prospect asks, "But where are all of your clients' yachts?" We don't fall for the industry's propaganda that investment performance doesn't matter. It certainly matters to our clients trying to fund 30 years of retirement and it certainly matters to our firm as we grow assets under management.

If we used the same Modern Portfolio Theory as most (we call it the "buy-and-hope method"), we certainly would have more time to focus on our golf handicaps or other hobbies. But, we won't settle for anything but the best. That is why we manage our clients within our proprietary models and at any given time, we know exactly what we own, why we own it and the performance for any time frame since inception.

We have enjoyed significant success in enhancing investment returns in the past and strive to in the future. We view your wealth as a tool to use in obtaining your happiest possible life; we also believe you should be wielding the biggest tool possible.

The Pursuit of Happiness

Time Shared

I'm writing this article from seat 17C on the return flight from Cabo San Lucas Mexico. Eileen and I just spent the last five days with clients, their two sons, one daughter-in-law and two grandchildren. We never divulge our clients' identity, but I'm sure they wouldn't mind me talking about our time together.

In our last newsletter we included an article on happiness, with one of the keys being spending time with your family and friends. This is a great example.

This time last year I received a call from an ecstatic client. He'd just arrived home from Cabo, where he had caught a 600 pound Marlin (don't worry the fish was released unharmed). The trip was so magical; the weather was perfect because of the cooler Pacific Ocean breeze and they could see whales from their balcony at all times. The trip was so wonderful they bought a time-share at the private resort.

It sounded so good I invited myself to go with them this year to check it out. Yes, on average I could count six to ten whales at any moment from our balcony, and yes it was between 80 and 82 everyday with low humidity. They hadn't been kidding about any of it; Eileen and I too fell in love with it.

But even better was that their entire family was together and not just for Thanksgiving dinner, for an entire week. As we left today they were in the process of buying-up to a larger unit because of their wonderful time together. With this upgrade they've made a commitment to get their family together on an annual basis.

Over the last several days we did a lot; deep sea fishing, swimming, beach walking, shopping, and way too much eating. But what stands out as the best part was the conversation and laughing. Life can be busy, but you haven't worked this hard to let it pass you by. Family dynamics change over time, you move from being child to parent and finally grandparent. As parents and grandparents it's up to you to make these special times happen. By the way his grandchildren call him "Grump-pa." I disagree, I just call him friend.

My family recently had its own trip; we spent a week in Cancun to celebrate my dad's 80th birthday. There were 23 of us age 3 through 80, including some that I hadn't seen in years. It was a trip I'll never forget. ●

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