WISLAR

WEALTH MANAGEMENT, LLC

Optimum Wealth & Life Strategies

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Sending Your Money Back to School: The Endowment Model

The majority of individual investors are familiar with the three main investment asset classes, stocks, bonds and cash, but are missing out on multitudes of others. These include commodities, real-estate, private equity, hedge funds and many more.

During the stock and bond markets bull run of the 1980's and 90's, a 60% equity 40% bond allocation returned an astounding 12% per annum, but for the past eight years that allocation has barely kept up with inflation. In the world of asset management, it is widely acknowledged that among investors, university endowments tend to enjoy better performance results over time than individuals. The 10 year average annualized return of Yale University's endowment was 17.8% (through June 30, 2007), while Harvard and Stamford each produced similarly impressive returns of 15% and 15.1%, respectively.

First, their Endowments are headed by top investment professionals with expertise and access to other top professionals that the average investor only dreams of. Second, an investment plan that is mapped out, but somewhat flexible, allows them to tactically overweight and underweight asset classes and investment strategies.

Over the past year, I have been lucky enough to have been invited and spend time with some of the country's top Endowment managers such as Andy Golden, Chief Investment Officer of the Princeton Endowment, and Mark Yusko who headed the University of North Carolina and Notre Dame Funds. The most striking aspect is their minimal use of the traditional asset classes of stocks, bonds and cash, and the heavy use of non-traditional investments. Mark Yusko has less than 10% traditional and Andy Golden less than 25%, with the rest in what we'll call "Alternatives".

What happens if you can lower volatility? From 1950 through the end of 2007 the S&P returned on average 9.19% per year turning a one thousand dollar investment into more than $85,000. Sounds great! But, if you were able to reduce your ups and downs by half and still return 9.19% on average, your $1000 investment would have turned into $140,000, leaving you with over 60% more. Experiencing a big down year can have a significant negative effect on long-term results.

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As We Grow

We are excited to formally announce a new service "Wealth Transfer Optimization – Beyond Traditional Estate Planning." Though this isn't new to our expertise we thought it was time to name and explain what it entails. For years we've been attending Estate & Trust Planning meetings with our clients. Our view is that the more intelligent ears that attend the more valuable the meeting is. Typically we have found that our presence added significantly to the discussion of helping clients reveal and explain family dynamics and special situations that are not often revealed unless asked, but need to be addressed. Also, an often overlooked aspect of Estate & Trust Planning entails the retitling of assets. If your Will states you want to leave your IRA to your spouse, but you've named your children as the IRA beneficiary on the account form, the assets are going to your kids. In the future, keep us in mind as a valuable participant to make sure your wishes are fully understood. •

The “Emerging Middle Class”

Over the past century the U.S. has enjoyed an ever increasing standard of living. Today we take for granted luxuries that were out of reach for all but the wealthy just a couple of generations ago. It would be hard to imagine life without a car, air-conditioning, a stove or even a toilet. But for most of the world these items are still out of the question.

Studies have shown that when a person’s annual income surpasses three thousand U.S. dollars; they will look beyond just surviving from day to day. In fact from $3000 to $20,000, people start to consume non-essential survival goods. The first is normally electricity, second a stove, then running water and so on. These income levels seem ridiculous to us, but the average Chinese has just reached $3000, while the average Indian has just broken through $1000 a year.

The U.S. enjoyed its big breakout from 1910 through 1950; fortunes where made as these simple luxuries took hold. Investors in utilities, railroads, infrastructure builders and numerous other industries were hugely rewarded. But, those figures will be dwarfed. The population of the U.S. was a mere 50 million, while today’s population of the Emerging Markets is in excess of 5 billion. The fortunes made by our forefathers will be dwarfed going forward.

We can use U.S. history as a guide going forward, the same industries that flourished here will again thrive as the “Emerging Middle Class” starts to spend trillions of dollars on a better life. There will be ever increasing demand on natural resources such as coal for electricity, oil, minerals, building materials and tools. Eighty six percent of the world’s population exists today on less than $3000 per year, but would love a Big Mac, a Coach bag, or a pair of Nike sneakers. The companies that provide the energy, technology, investment money’s and goods to the “Emerging Middle Class” stand to reap huge rewards. We plan to participate, as trillions of dollars are invested.

The Dismal Decade

We know the markets have been experiencing a tough time over the past year, but what about the past 10 years? No better. The annual return of the S&P500 over the decade ending June 30, 2008 was a measly 0.06 percent per year. How does this compare to other lost decades?

The 1930’s, which included the “Great Depression”, was worse but not by much. The average annual return was a negative 0.05% per year. The 1970’s, which included a couple of energy crises and a bout of Stagflation with short-term interest rates topping at 21%, a positive 5.86% per year. By the way, even if you account for higher inflation during the 70’s you still had a better return. The after inflation return then was -1.40% per year versus the after inflation return of -3.00% we’ve just experienced.

You’ve just survived the second worst decade in modern history. Let’s see what normally follows these “Dismal Decade’s”. The 1940’s had an average annual return of 9.17% and the 1980’s 17.55%. Of course there’s no guarantee, but periods of declining or sideways markets tend to reset valuations much lower. The current valuations are the lowest since 1981, and yes the beginning of the last Bull Market.

We can’t be sure when things will turn this time, but with ten lost years behind us, we are surely closer to better times. It is hard to sit by and watch the current market, but if you’re a long-term investor that’s exactly what’s recommended. The current news headlines of job cuts, asset write-downs, foreclosures and more are hard to stomach, but history has been filled with negative news. Somehow we always manage to come out of the other side and better off for it.

Endowment Model

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our clients in 2003 with exposure to commodities and structured notes. Also, we significantly increased both diversification and return with a large increase in our international allocation focusing on countries and companies with “Alternative” investments.

With the success of Wislar Wealth Management, we have gained access to investments and managers we could have only dreamed of in the past. Mark Yusko, whom I mentioned earlier, has enjoyed returns at the top of the Endowment universe while experiencing only one-third of the S&P 500’s volatility. We now have access to his investment expertise. Early on, we adopted the Endowment Method of investing for our clients and have enjoyed great success with it.

We expect the media to begin reporting on this very subject. You’ll know that you were a pioneer enjoying the benefits of the Endowment Method while others are still affected by the daily swings of the traditional asset classes.

Change of Planes

Mohamed El-Erian, whom recently left the post of managing Harvard's $35 billion endowment to join Pimco, was recently quoted in an interview saying "We see over the long-term a realignment of the global economy. The world use to be basically a plane that flew on one big engine. That was the U.S. consumer. That was a big, big engine that kept the global economy afloat. Even though the global economy had to absorb various shocks including Japan having a lost decade in the 90's, that engine was strong enough to keep the global economy flying. That engine now is dated. It's aging. It's sputtering. We have a number of smaller engines coming on stream. That by definition is a bumpy ride."

Mohamed is referring to the transition of growth and wealth away from the U.S. to the Emerging Markets such as China, India and others. In 2003 we increased our international weighting from 20% to 40% in stocks in anticipation of this phenomenon. Today just 25% of the worlds GDP comes from the U.S., while nearly 50% of the world's stock market float is still within the U.S. The foreign markets have out-performed for the past decade and we expect this to continue on a secular basis going forward. Sure, there will be periods that will make you question this stance, but this trend will outlast most of us. It is simple math. If the U.S. grows at 3% per year while other countries grow at 5, 6, 7 or 8%, our share of the worlds output will decline along with our stock market share.

Recently, you may have noticed more activity than usual within your accounts. This is because the current malaise and significant pullback within the Emerging Markets has given us opportunity to pick up some great companies at fantastic valuations. The "Core List" is now trading at its lowest ever price-to-earnings ratio yet enjoys its highest ever forecasted growth rate.

This trend will continue for many years to come. The average U.S. investor has just 17% of their money invested internationally. We have been and will continue to be ahead of the curve with this theme. But remember Mohamed's last sentence **"That by definition is a bumpy ride"**.

WWM Town Hall Meeting

We recently held a Wislar Wealth Management "Town Hall" meeting to review where we've been and where we're going. Over the past year we've experienced significant growth, our assets under management have increased by 34%, and we've added several wonderful families to our client list. Nyda has matured into her position and continues to grow in her expertise freeing George to spend more time with clients, investment due diligence and the depth and quality of our offering. We also addressed what we believe to be the optimum client offering, with a focus on three key areas.

First, we have had fantastic feedback in the area of "Life Coaching". Focusing on what you want more of in your life and the important factors that contribute to a happier life has been invaluable to us and our clients. You can't imagine the reward of helping people through life's transitions such as retirement, the sale of a business or the loss of a spouse. We deeply believe that your wealth should act as a tool to support your happiest life.

Moving to the left brain side, financial planning serves as a great tool to access the availability of financial and life goals. Having a clear idea of what is and what's not possible financially helps our clients focus on what they can pursue to achieve their happiest life. Probably the most universal benefit for our clients is the ability to support more time with their children and grandchildren. We've yet to have any clients go out and buy a more expensive toy, but we've had several add beach house rentals, vacation's including their entire family, or a condo near a child. It turns out that family is first.

The third key focus is on our investment management. Our process has proven itself over time, but we are always looking for ways to improve performance and lower risks. The recent market turmoil has highlighted the need for top expertise. The past decade has proven to be the second worse in history behind the "depression decade", but clients still need to reach their goals. With that, we have intensified our focus on the "Endowment Model" to help clients reach their objectives through thick-and-thin.

On a sad note, Phil Dresdner will not be able to continue on with Wislar Wealth because of recent medical issues. We all wish Phil a speedy recovery.

The Pursuit of Happiness

What We Can and Cannot Change

Over the past year it's been hard to get through a day without a major terrifying financial headline, the most recent is the takeover of Fannie Mae and Freddie Mac by the U.S. Government. By the time you receive this, Lehman Brothers and Washington Mutual may have joined the long list of debacles. We are witnessing the largest credit unwinding ever to face humankind and it's going to take time. But, with that said we will get through this like every other event in history. People who have existed on high leverage are being affected, and as the highly leveraged are forced to de-leverage, the negative news will keep coming.

I won't pretend it doesn't affect everyone. Almost all markets around the world have come down significantly as the leveraged are forced to sell their assets. But, for those of us that aren't leveraged, we can wait it out. While we wait it is hard not to get wrapped up in the negative news. We can't change the news, but we can change the way we view it.

A recent study focused on two groups; the first group was asked to think of the most horrifying thing that could ever happen to them. After fifteen minutes, while hooked up to equipment to measure their reactions, the participants were asked to describe their most horrifying event. As they told their story their blood pressure rose, they sweated and their bodies released survival hormones that typically have a negative health affect. The other group was asked to think of the best thing that could ever happen to them. As they began describing their event they started to smile, their blood pressure dropped and they were overcome with optimism.

"Keep in mind that we have a choice in what we focus on, the positives or the negatives."

I'm sure you are familiar with studies that show that if there are 10 witnesses to an accident there are 10 different views on exactly what took place. This holds true for most of life. A conversation between two individuals has two truths – one for each, creating unique individuals with unique viewpoints. But a lesson from the study reveals to us that what we focus on can have a significant affect upon us.

During a recent luncheon with a client we discussed the "Great Depression". We both acknowledged this event has gone down in the history books as the biggest economic downturn to have ever hit the United States. Even though the client was a young child during the 1930's he remembers that his family, and his wife's family, did fine even with the unemployment rate at 25%. They were fortunate to be part of the 75% of Americans that still had jobs. He shared with me that his father and mother chose to live below their means and to help others who were less fortunate.

Keep in mind that we have a choice in what we focus on, the positives or the negatives. The world is changing around us and some of us will see it as positive and some as negative. Everything creates either opportunity or fear. The funny thing is both are a result of the same event. We as Wislar Wealth Management are definitely looking for the opportunities that are presented during the current economic challenges. ●

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