

John Clair

From: John Clair [jclair@leahyandclair.com]
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To: jclair@leahyandclair.com
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Dear Friends,

We hope all is well! Thanks for taking time to check out this month's newsletter. Here are the highlights:

Thanks to all those who helped make the The Richmond Symphony Benefit in Midlothian a huge success. A significant amount of money was raised for The Johns Cancer Foundation. To see photos from the event, [click here](#) and use access code "kingsway".

Can market-timing mutual fund managers outperform the market? We check in on our study to see if these funds have delivered...[Read More](#)

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We've all heard it said by now. There's a "new normal" in the financial world. Or is there? Here's a good article that discusses this concept is anything but new and how markets have adapted to major social and



James River Rotarians at the Symphony Fundraiser

February 2011

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Did You Know?



\$64,000...Median amount of inheritance projected to be received by baby boomers over their lifetimes. (2)

45%...Percentage of all investible assets controlled by high-net-worth investors (those with more than \$5 million) who make up 1.7% of the population. (2)

\$75,662...Average amount donated to charity in 2009 by high-

economic shifts in the past...[Read More](#)

Best regards,

John & Tom

net-worth individuals who volunteered more than 200 hours that year. Non-volunteers donated only \$46,414. (1)

Sources:

1. *Journal of Financial Planning*, January 2011

2. *Journal of Financial Planning*, February 2011

Mutual Funds Designed to "Time the Market" A Leahy & Clair Study Examines Their Performance



On November 12, 2009, there was an article in *The Wall Street Journal* entitled "More Mutual Funds Time the Market." The implication was that mutual funds with "active" managers could outsmart volatile equity markets and outperform benchmarks and passive funds by moving in and out of large cash

positions at the right times.

If you know us at Leahy & Clair, you probably know we feel it is extremely difficult, if not impossible, to successfully time the market over the long haul and equally difficult to identify in advance which fund managers will do it. So, we decided to look at the performance of these "new" tactical funds - and see if they were, indeed, the pancea for risk-wary investors.

The funds highlighted in the WSJ article were:

- Ivy Asset Strategy (WASAX)
- Intrepid Small Cap (ICMAX)
- Van Kampen Global Tactical Allocation (VGTAX)
- Quaker Small Cap Growth Tactical Allocation (QGASX)
- Encompass Fund (ENCPX)

Generally, funds like these that attempt to time the market can often deliver erratic performance, charge high fees (up to 2.4% annual expense ratio in this case), and rack up big trading costs by constantly moving in and out of positions.

The measurement period in the study was the day the WSJ article came out (11/12/09) through 2/8/11, the initial draft date of this newsletter.

So how did they do?

Fund Description	Fund Return	Performance Benchmarks		
		S&P 500	DFA Global 60/40	S&P 600 Small Cap
Ivy Asset Strategy	12.4%	24.1%	18.6%	40.1%
Intrepid Small Cap	26.0%	24.1%	18.6%	40.1%
Van Kampen Global Tactical Asset Alloc	6.1%	24.1%	18.6%	40.1%
Quaker Small Cap Growth Tactical Alloc	11.3%	24.1%	18.6%	40.1%
Encompass Fund	86.2%	24.1%	18.6%	40.1%

Four out of the five funds failed to meet some or all of their broad-based passive benchmarks (see red areas above). You'll notice the Encompass Fund had an 86.2% return over the measured period. So, one may think this fund manager may know something that the rest of us investors don't

know, right? In 2008, this fund delivered a whopping -62% drop, which landed it at the *bottom* of the world-stock category. So should we attribute the 86.2% gain to luck or skill?

While we'll be the first to admit our study is far from scientific, it does provide a rather intuitive piece of evidence that timing today's relatively efficient markets is close to impossible - even if you're an "expert".

Sign-up for Our Next Webcast

Investment Basics 101

Sometimes it's good to review the basics. At **5:30 pm on March 15, 2011**, we will take you through the basics of investments. Come with your questions. None will be considered too elementary.



The webcast will cover:

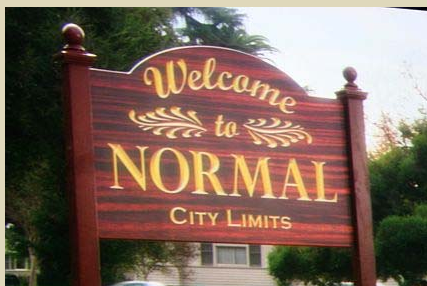
- What to consider before investing
- Types of investments (stocks, bonds, etc.) and how they work
- Basic investment principles
- The need for global diversification
- What's the right investment philosophy for you



Please make your reservation by responding to events@leahyandclair.com or by calling (804) 794-1981.

What's "New" about a New Normal?

Markets Tend to Reward Discipline & Long-Term Perspective



The 2008 global market crisis and the struggling economy have left many investors fatigued. Despite two years of strong equity returns, some investors have been slow to regain market confidence. Many are accepting the talk about a "new normal" in which stocks offer lower returns in the future.

The concept of a new normal is anything but new. In fact, throughout modern history, periods of economic upheaval and market volatility have led people to assume that life had somehow changed and that new economic rules or an expanding government would limit growth. What they could not see was how markets naturally adapt to major social and economic shifts, leading to new wealth creation.

Let's look at other periods when investors had strong reasons to give up on stocks, and consider the parallels to today:

1932: The US stock market had just experienced four consecutive years of negative returns. A 1929 dollar invested in stocks was worth only 31 cents by the end of 1932. Hopes were sinking during the Great Depression, and many people felt as though the economy had permanently changed. Many investors left the market, and some would not return for a generation. Amidst what is considered the roughest economic time in US history, the markets looked ahead to recovery.

US Stock Market Performance after 1932*

	5 Years	10 Years	20 Years
Annualized Return	15.35%	10.07%	13.19%
Growth of \$1	\$ 2.04	\$ 2.61	\$ 11.92

*All stock market returns based on CRSP 1-10 Index. Past performance is no guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.

1941: World War II was raging, and the US had just entered the conflict. The US stock market had experienced two consecutive years of negative performance, and the economy had shown signs of sliding back into depression. Although conversion to a wartime economy would revive industrial production and boost employment, investors struggled to see beyond the conflict. Many expected rationing, price controls, directed production, and other government measures to limit private sector performance.

US Stock Market Performance after 1941

	5 Years	10 Years	20 Years
Annualized Return	18.63%	16.67%	16.29%
Growth of \$1	\$ 2.35	\$ 4.67	\$ 20.47

1974: Investors had just experienced the worst two-year market decline since the early 1930s, and the economy was entering its second year of recession. The Middle East war had triggered the Arab oil embargo in late 1973, which drove crude oil prices to record levels and resulted in price controls and gas lines. Consumers feared that other shortages would develop. President Nixon had resigned from office in August over the Watergate scandal. Annual inflation in 1974 averaged 11%, and with mortgage rates at 10%, the housing market was experiencing its worst slump in decades. With prices and unemployment rising, consumer confidence was weak and many economists were predicting another depression.

US Stock Market Performance after 1974

	5 Years	10 Years	20 Years
Annualized Return	17.29%	15.92%	14.89%
Growth of \$1	\$ 2.22	\$ 4.38	\$ 16.07

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