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Sent: Wednesday, October 26, 2011 10:50 AM
To: jclair@leahyandclair.com
Subject: A Polaroid Moment? - Leahy & Clair eNews, Nov '11

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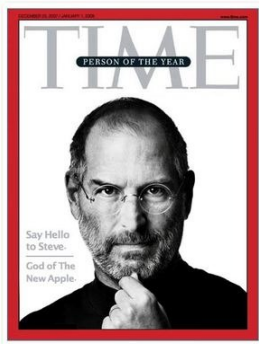
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Dear Friends,

It's Halloween time again - and that means little ghosts and goblins wandering the neighborhood! There's certainly still enough uncertainty and fear to keep us all guessing on the financial front - so remind yourself to keep focusing on the things you *can* control (tax-wise savings strategies, living within your means, enjoying life) and try not to worry about the things you *can't* control, like daily sovereign debt negotiations in Europe.



impact stocks? A new analysis shows some interesting results.

In this issue:

So, what will become of Apple's products and stock price in the future? Is it a good investment? An great story about another visionary (and Jobs mentor) speaks to us about the up's and down's of one of the world's most revered companies. A good teaching tool for investors. [Read More](#)

US debt was downgraded this past summer and sovereign debt problems in Europe continue. What should investors make of downgrades and how they may

November 2011

In This Issue

[Before Apple, There Was Polaroid \(What?\)](#)

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Did You Know?



33%...Percentage of employees in North America who say they often get emails from their boss on the weekend.

66.6%...Percentage of working single mothers who own life insurance, compared to 57 percent of women overall.

2.8%...Percent salary increase expected for US non-executive employees in 2012, up from 2.6 percent in 2010 and 2011.

Source

1. *Journal of Financial Planning*, October 2011

[Read More](#)

If you're like most "regular" investors, you have investment accounts (401k's, brokerage accounts, annuities, etc) scattered across many financial institutions. That makes it extremely difficult to track and manage your overall "family" portfolio, doesn't it? Leahy & Clair has partnered with an industry leader in account aggregation and security to bring all of your accounts together - automatically! [Read More](#)

Have a great month everyone!

John & Tom

What's in Your View Finder?

A Message for Investors

The following is Westin Wellington's "Down to the Wire" column from October 19, 2011.

He is no longer with us, and the world is poorer for it.

A restless college dropout, he founded a wildly successful company whose innovative products touched millions of lives. He was a brilliant, dictatorial, and cantankerous leader, relentlessly pushing his staff to solve one impossible problem after another. He had no use for conventional market research, and trusted his own vision to create products with little detectable demand that flew off shelves upon introduction. He zealously guarded his personal privacy but reveled in his role as a master magician on stage when introducing his firm's latest innovations to eager crowds of industry followers. Stockholders wore big smiles as the shares vaulted to one new high after another. In many ways, he was the antithesis of the conventional corporate chieftain, and despite his demanding persona, he was revered by employees, customers, and even competitors to a greater extent than almost any other chief executive in recent memory.

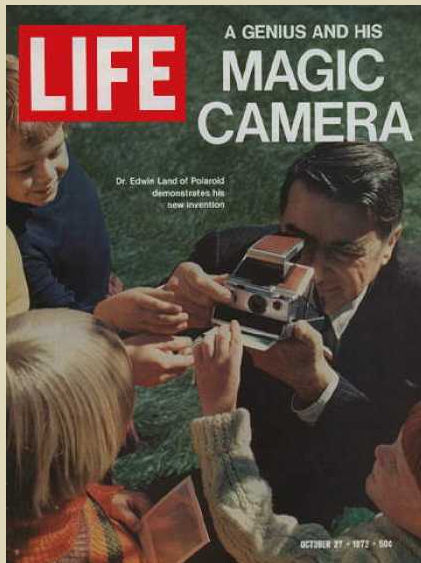


A tribute to the late Steve Jobs? No - to Edwin Land of Polaroid.

The son of a scrap metal dealer, Land dropped out of Harvard to pursue his own research at the New York Public Library on polarized light filters. He founded Land-Wheelwright Laboratories in 1934 with his former physics professor, and his low-cost polarizing filters proved useful in products ranging from sunglasses to army tank telescopes and gunsights. After the war, he turned his attention to photography and introduced the Polaroid-Land instant camera in 1948. Despite a stiff price tag of \$89.75 the first shipment of 57 cameras sold out in a matter of hours at a Boston department store, and the firm never looked back.



Numerous improvements followed, and sales boomed as the cameras and film became smaller, lighter, easier to use, and less expensive. The stock price did likewise, and Polaroid became a bellwether "glamour" stock during the postwar bull market soaring tenfold in just five years from 1963 to 1967.



When a cover story in *Time* appeared in June 1972, Polaroid seemed all but unstoppable. Land's inventive genius had resulted in an astonishing new industry with technology protected by a wall of over 1,000 patents. (Land himself held 535 patents, second only to Thomas Edison). Eastman Kodak offered only token competition in instant photography, and was eventually vanquished in both the marketplace and the courtroom. Kodak was forced to pay Polaroid nearly \$1 billion to settle a patent infringement suit and withdrew from the

instant camera business. Polaroid shares reached an all-time high of \$149.95 in mid-1972, amid intense excitement over the ingenious new SX-70 single lens reflex color camera and rumors of an instant movie product. Government surveys at the time identified photography as one of the fastest-growing industries in the country, and Polaroid appeared to be a key beneficiary: In the premium category (cameras selling for \$50 or more), Polaroid was not only the undisputed leader but outsold all other global competitors combined.

Land was one of Steve Jobs' heroes, and the youthful computer tinkerer from California felt almost a mystical connection with the Cambridge scientist forty-six years his senior. Both were impatient perfectionists, often driving themselves even harder than their overworked employees. Land was infamous for wearing out staff members, who rotated in shifts while he focused on knotty problems. During one marathon research session, Land wore the same clothes for eighteen straight days. When Jobs had the opportunity to meet with Land personally, he found that he and Land shared a peculiar characteristic: Both believed that new products were not invented so much as discovered. Both could visualize a product that did not exist down to its smallest details, and the task of development was thus akin to Michelangelo's description of sculpture. The artist's task was to remove the unnecessary material to reveal the beauty already contained within the stone.



Alas, *Time's* cover story marked the beginning of the end. The instant movie project ("Polavision") turned out to be a costly failure

and led to Land's resignation in 1980. Jobs was dismayed when Land was pressured to leave the firm he had founded, calling him a "national treasure." Jobs would suffer a similar fate after losing a boardroom battle in 1985.

Although Polaroid products continued to sell well, the shift to digital photography caught the firm unprepared and slowly hollowed out the highly profitable film business. Polaroid filed for bankruptcy in October 2001. The research labs and film factories were shuttered, although the brand name, traded from one sharp-elbowed financier to another survives as a ghostly reminder of its illustrious past. The years have been kinder to Eastman Kodak, but not by much. Founded long before Polaroid in 1888, it has outlived its former adversary but now struggles to avoid a similar fate.



What is the message for investors?

As we observed in a previous newsletter, the forces of competition are relentless, and today's astonishing innovation may be tomorrow's commodity - or garage sale castoff. We have no reason to believe that Apple has anything but a bright future, but those of us tempted to concentrate our investment capital in a

handful of exciting industry leaders should consider the fate of Polaroid before declaring, "It can't happen here."

Sovereign Debt & Stock Returns

Why Markets Evaluate Better than Ratings Agencies



Current volatility in financial markets continues to stir unwelcome feelings among many investors - feelings of anxiety, fear, and a sense of powerlessness. These are completely natural responses. Acting on those emotions, though, can end up doing us more harm

than good.

As you know, in early August, Standard & Poor's downgraded US government debt from a top-rated AAA to AA+. In the weeks preceding the event, some market observers expected a downgrade to result in higher interest rates and lower stock returns.

After the downgrade, yields on US government securities fell across the term spectrum as investors around the world fled to the safe haven of US bonds. US stocks experienced negative returns in the following weeks but logged positive performance from the day of the downgrade to month end.

These events raise questions about *whether changes in sovereign debt ratings impact stock markets*. The short answer is that results are mixed, and that many other factors affect a country's cost of capital and stock market returns.



Regarding bond markets, history offers examples of major developed countries that experienced a credit downgrade without a significant rise in interest rates. Examples include Australia, Canada, and Japan, which lost their top ratings in 1986, 1992, and 1998, respectively.

Other research suggests that countries with high credit ratings may withstand a downgrade better than countries with lower ratings. One study looked at sovereign credit rating downgrades since 1990 and found that bond yields *changed little* among countries downgraded from the highest triple-A rating. However, countries with lower credit ratings (single A or below) experienced significant interest rate increases following their downgrade.

Stock market impact

Another question is whether the US downgrade has played a role in the US market downturn - and research does not provide convincing evidence.



Below is a chart that summarizes stock market performance of respective countries before and after a ratings change. It is based upon a study of ratings changes made by Moody's from 1983 to 2009. During the twenty-seven year period, the ratings agency made seventy-

one upgrades and twenty-five downgrades to governments in the developed and emerging markets tracked by MSCI.

The study identified the date of each change and logged each country's market performance in the twelve months before and twelve months after the event. Each country's market returns were compared to the respective market index and the excess return averaged for all events. (*Excess return refers to performance above or below the respective market index, either MSCI EAFE or MSCI Emerging Markets, as appropriate.*)

Figure 1. Equity market performance before and after Moody's ratings changes 1983-2009*

Sovereign Bond Rating Change	Cumulative Return in Excess of Market	
	12 Months Before	12 Months After
Upgrade	13.83%	3.87%
Downgrade	- 6.56%	3.73%

The aggregate results show that stock markets of upgraded countries outperformed their respective market index in the twelve

months *before* the rating change (13.83%), while stocks in downgraded countries aggregately *underperformed* the market index before the event. However, cumulative returns in the twelve months following a ratings change were almost *the same* for the upgraded and downgraded countries (3.87% vs. 3.73%).

These results suggest that market prices reflect all available information and expectations about a country's economic prospects—including the possibility of a ratings change. By the time a country's debt rating is upgraded or downgraded, the market has already integrated the news into prices. Stock markets reflected positive economic developments prior to a ratings upgrade and negative developments before a ratings downgrade. After the event, markets did not appear to perform much differently, in aggregate.

Conclusion

This research underscores the importance of looking to market prices for signals about the fiscal health and prospects of a country or a company. Based on the foregoing analysis, markets appear to work faster and more accurately than ratings firms to assess a country's financial condition and evaluate the potential impact on its cost of capital and equity market.

Adapted from:
Bryan Harris
Senior Editor, DFA

*Analysis conducted by Dimensional Fund Advisors using sovereign bond rating data from Moody's Investors Services, "Sovereign Default and Recovery Rates, 1983-2009." Returns are in US dollars and represent performance in excess of MSCI EAFE Index for developed markets and MSCI Emerging Markets Index for emerging markets. A positive excess return indicates market outperformance; a negative excess return indicates underperformance. The table reports the return of an equal-weighted, event-time portfolio. Past performance is no guarantee of future results.

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