

THE WEALTH MANAGEMENT REPORT



“Hello, I Must Be Going...”

Written by: Daniel Friedman



Hello again!! Happy New Year! Wishing everyone a healthy and wealthy 2012!! Quite a volatile year and quarter in the markets and also here at home with a hurricane and an October snowstorm that knocked out power for over a week... Life imitating art! Fortunately the Friedman boys continue to persevere. Max, my oldest son, has been hard at work full-time at Wal-Mart, and Jordan, a Junior at Hall High, is on the honor roll and successfully passed his driving test! Shea, my 10 year old, is doing great at Bugbee Elementary and his West Hartford Youth Football team (the *Wealth Management Group of North America, LLC Pee Wee Titans*) won the Superbowl! And yours truly is still going strong! Now onto the matter at hand – *The Wealth Management Report*.

There was a very funny take on the Occupy Wall Street movement on Yahoo! News recently. Financial journalist Michael Lewis, author of “Liar’s Poker,” “Moneyball” (the movie dis-

cussed in our Q3 2011 *Wealth Management Report*) and “The Big Short” (about the 2008 global economic meltdown), has penned a mock memorandum from “The Strategy Committee”. It represents the large Wall Street firms, with advice on how to offset the protesters, particularly those at elite northeastern college campuses once regarded as prime recruiting grounds.

Meanwhile, one of the most interesting things about investing is the long-term disconnect between world events and the behavior of investment markets. Every day, we hear that the markets went up or down as a result of this or that dramatic event or piece of economic data in the news. But if Rip Van Investor had fallen asleep at the start of the 20th century, and woke up with a yawn 100 years later at midnight, December, 1999, he would have been startled to see that his investment in the S&P 500 had gained more than 10% a year, on average, during his 100-year nap. He might fairly have concluded that he’d slept through ten decades of happiness, sunny economic climate and smooth sailing, when in fact the century included two horrible world wars, the Great Depression, the Cold War, the disastrous war in Vietnam, stagflation, a presidential assassination, impeachment hearings, the rise of

global terrorism and truly disturbing social trends like reality TV. (Sorry *Jersey Shore* fans!).

2011 proved to be a microcosm example of this odd-but-important investing lesson. If you had gone to sleep on January 1, woke up on December 31 and immediately checked your U.S. stock portfolio, you would have seen the most boring possible outcome: Stocks basically unchanged for the year. The Standard & Poor’s 500 index finished the year exactly 0.04 points below its level prior to the opening bell on January 1, 2011. That translates to almost exactly a 0% total return. Add in dividends, and the total return came to 2.11%.

The broad-based Wilshire 5000 index rose 0.98% for the year, while the Russell 3000 was up 1.03%. Larger stocks generally fared better than smaller ones. The Wilshire U.S. large cap index went up 1.59%, and the Russell 1000 gained 1.50%. Wilshire’s U.S. midcap index fell 1.52% during 2011; the Russell midcap index was down 1.55%. The Wilshire U.S. smallcap index dropped 3.40%, while the comparable Russell 2000 was down 4.18%. Performance in the technology and commodities markets

“Hello,” cont.

mundane; the Nasdaq composite index fell 1.8% during the 2011 calendar, and the Standard & Poor's GSCI commodities index was down 1.18%. That means it was a boring, uneventful year for investors--right?

In fact, this less-than-inspiring stock market performance was achieved in the most exciting possible way. Remember August, when the average spread between the highs and lows on the S&P 500, per day, was an astonishing 3.39%? Remember all the political bickering over raising the U.S. debt ceiling, when we worried that the United States government was teetering on the brink of default? Or how the S&P credit evaluators stripped the nation of its AAA rating? Yet somehow, despite the best efforts of our politicians, a broad index of U.S. government bonds gained 9.6% for the year.

All year long, we heard one gloomy report after another on housing and real estate, yet the Wilshire REIT index gained 9.24% for the year. In 2011, we watched the European Union teeter on the edge of collapse, the sovereign debt contagion spreading from Greece to Spain and (gulp!) Italy. Yet the international EAFE index of developed foreign markets closed the year with a quarterly gain of 2.86%, cutting an international investor's losses down to 14.82% in dollar terms. (EAFE's emerging markets index, the trendy investment choice for many pundits at the start of the year, was down 20.41% for 2011.)

Amid the Arab Spring uprisings

and regime changes in Egypt, Tunisia and Libya, constant tensions over the nuclear program in Iran, the terrible tsunami tragedy leading to a nuclear catastrophe in Japan, and the recent unpredictable regime change in nuclear-armed North Korea, it seemed like every other week there was a reason for investors to believe that the markets would finish 2011 well below their pre-crisis levels.

It's true that portfolios that held foreign stocks would have shown overall losses for the year. But the bigger picture here in the U.S. is: Why is there such a broken connection between tragedy, political turmoil and scary headlines on the one side, and market returns on the other? The answer may be that the underlying forces driving our economic growth are more stable than the headlines suggest. Quietly, despite the best (or worst) efforts of Congress, the U.S. unemployment rate has steadily declined from over 10% at the peak down to 8.6% last month - its lowest level in three years. Factory output is rising, consumer spending has been surprisingly strong, and for the first time in decades, the U.S. is a net energy exporter.

Profits, economic growth and jobs are ultimately created by the ingenuity and hard work of millions (or globally, billions) of people who come to work every day, put their heads down and accomplish the things set before them. Rip Van Investor would have told you that this drive and initiative was the really big story of the 20th century, more important than the incidental wars, recessions and political bickering. All he had to do is see that

his horse and buggy had been replaced by a Lexus (or a Highlander?), the telegraph he wanted to send could be handled via e-mail and the Internet, and he could walk with wonder through skyscraper cities and see the planes above overtake the birds in the sky.

The same hidden underlying force that powers the markets has taken the human species from cave dwellings to the modern electronic age that is still, admittedly, far from perfect. World events have gotten more complicated, more interesting, sometimes more disturbing, so much so that it takes a bit of perspective to see the long-term trend behind the scary headlines, behind the dips and swirls of the markets.

The major U.S. market indices avoided a downturn in 2011 after two strong recovery years. Those who bailed out after the market took any of its many tumbles would have risked missing the year's many improbable, unpredictable recoveries. Rip Van Investor came out all right--and suffered a lot less anxiety than the rest of us.

As always, I hope you've enjoyed this issue; I've enjoyed putting it together! Also, as a reminder, if you're short of nighttime reading, you can find prior issues on our website at www.myrestylement.com and if you know someone who would like to be added to our newsletter email list, drop me a note at daniel@myrestylement.com. Talk to you soon, Keep the Faith--Dan

Corporate Psychopaths

Written by: Brian Beck



Do you know a Corporate/Financial Psychopath?

The definition of a psychopath according to Wikipedia is: *A personality disorder characterized primarily by a lack of empathy and remorse, shallow emotions, egocentricity, and deception. Psychopaths are highly prone to anti-social behavior and abusive treatment of others, and are disproportionately responsible for violent crime when in a violent emotional state or situation. Though lacking empathy and emotional depth, they often manage to pass themselves off as average individuals by feigning emotions and lying about their past.*

This leads me to my discussion of so-called "Corporate Psychopaths" in business.



In 2005, Clive R. Boddy, a British scholar who studied the effects of Corporate Psychopaths over the

past ten years, wrote that the rise of the Corporate Psychopath is a recipe for business and societal disaster. To come to this conclusion, he collected reports of critical incidents involving potential Corporate Psychopaths and more recently, collected data on the effects of these people in relationship to organizational outcomes.

Since the market crash of 2008, many people have tried to explain what happened during that turbulent time, which seems to continue to plague us today. We still get questioned (and understandably so): *"How do I know that you are not the next Bernie Madoff?"*

Psychopaths have not only infiltrated corporations, but also unfortunately our world of personal finance. Bernie Madoff is behind only one of potentially numerous Ponzi schemes targeting individual and institutional investors. As of the publication date of this newsletter, John Corzine, formerly the head of Goldman Sachs, a U.S. Senator, a governor of New Jersey, and lastly, prior leader of MF Global, is presently trying to "find" ~\$1.2 Billion of the firm's clients' money.

So as I recap a brilliant article written by Clive Boddy, which was recently published in the Journal of Business Ethics, imagine a corporate leader, public official, financial "personality," or even someone you work with that may fit this profile. The purpose of this article is not to scare anyone, but to inform you that just because someone seems to be playing the part (they may wear the right clothes, drive a nice car, live in the best neighborhood), and if they always seem to be offering the "magic pill" or is

Frank's quarterly puzzle!

	U			B		
		R	O	U		S
			L	P	U	
	O		U		L	
L	W		E			O
R			P		B	W
O	W			P	R	B
		S			L	P
U	B	W	R			E

Letters:

B, E, L, O, P, R, S, U, W

never wrong (according to them), it might be a time to take a step back.

The recent market meltdown has not only raised many ethical issues concerning who pays for the damage inflicted, but has exposed many individuals for what they really are: Corporate/Financial Psychopaths.

So how did these Psychopaths infiltrate corporate America? According to Clive Boddy's article in *The Journal of Business Ethics*...

"Up until the mid to late 1990's, large corporations were relatively stable, slow to change and the idea of a job for life was evident, with employees gradually rising through the corporate ranks until a position was reached beyond which they were not qualified by education, intellect or ability to go. In such a stable, slowly changing environment employees would get to know each other very well and Corporate Psychopaths would be noticeable and identifiable as undesirable managers because of their selfish egotistical per-

Psychopaths, cont.

ployees increasingly found themselves working for unfamiliar organizations and with other people that they did not really know very well.

Corporate Psychopaths often are charming individuals who have been able to rise quickly and relatively unnoticed within corporations because of their relatively chaotic nature. With rapid change and employee turnover of key personnel, these conditions make Corporate Psychopaths hard to spot because constant movement makes their behavior invisible. Combined with their extroverted personal charisma and charm, it makes them appear normal and even to be ideal leaders.

Failures were often noticed too late and the offending person had already moved on to better positions elsewhere. Successes could equally be claimed by those who had nothing to do with them. Success could thus be claimed by those with the loudest voice, the most influence and the best political skills. Corporate Psychopaths have these skills in abundance and use them with ruthless and calculated efficiency.

The whole corporate and employment environment changed from one that would hold the Corporate Psychopath in check to one where they could flourish and advance relatively unopposed.

Starting during the Tech bust, arising again in 2007 and continuing today, we see that corporate financial scandals have assumed epidemic proportions. Companies once considered great with a longstanding history,

unblemished and even dignified reputations, have been brought down by the misdeeds of their leaders or Corporate Psychopaths.

These psychopaths seem to be unaffected by the corporate collapses they have created. They present themselves as glibly unbothered by the chaos around them, unconcerned about those who have lost their jobs, savings, and investments, and as lacking any regrets about what they have done. They cheerfully lie about their involvement in events, are very persuasive in blaming others for what has happened and have no doubts about their own continued worth and value. They are happy to walk away from the economic disaster that they have managed to bring about, with huge payoffs."

Unfortunately, in our world that we live in of wealth management, there has been way too many Bernie Madoffs. The traits of these Financial Psychopaths are basically the same as those Corporate Psychopaths, except for one. Many Financial Psychopaths, like Corporate Psychopaths, move from company to company every few years to create massive Ponzi schemes like Bernie Madoff or R. Allen Stanford. These Financial Psychopaths seem to "own" their own "private" company.

Both Financial and Corporate Psychopaths strive for the pursuit of their own self-enrichment and they disregard the need and wishes of others. They may look smooth, charming, sophisticated and successful; however, they are prepared to lie, bully and cheat at any time to protect themselves.

Thus, the lesson to be learned is: How do you keep *your* money out of the hands of some Corporate or Financial Psychopath? The first step is easy - if an investment seems too good to be true... It usually is. Next, do your homework on who you hire to manage your money and if something doesn't seem right or they are "too perfect," move on. Lastly, make sure you review your investments, know where they are, and have a constant open line of communication.

-Brian

Disclosure - Opinions expressed are those of the author and are not endorsed by NPC.

Puzzle solution:

S	U	P	E	R	B	O	W	L
B	L	R	O	W	U	E	S	P
W	E	O	L	S	P	U	B	R
P	O	E	U	B	W	L	R	S
L	B	W	R	E	S	P	O	U
R	S	U	P	L	O	B	E	W
O	W	L	S	P	E	R	U	B
E	R	S	B	U	L	W	P	O
U	P	B	W	O	R	S	L	E

*MARKET INDEX RETURNS

Index	4th Q	YTD
S&P 500	11.82%	2.11%
70% S&P & 30% Bond	8.61%	3.83%
MSCI EAFE	3.33%	-12.14%
CPI	-0.10%	2.94%
BarCap US. Agg Bond	1.12%	7.84%

*All indices are unmanaged and cannot be directly invested into. Past performance is no guarantee of future results.