

Summer 2009

NAVIGATOR

The Newsletter for the Clients of TGS Financial Advisors



Pilgrimage to Omaha

by James S. Hemphill, CFP® ChFC CIMA

“Any chance you have to buy quality assets at bargain prices, do it. Don’t worry about whether it might go down further. If you buy something at X, and later on you can buy it at half-X, don’t worry about the fact that you bought it for X the first time. Buy it again.”

— Warren Buffett

For several years, my friend Mike has been asking me to go with him to Omaha, Nebraska, for the annual meeting of Berkshire Hathaway, Warren Buffett’s insurance company/conglomerate. Every year, I’ve said that it sounds like a good idea, and then failed to follow up. This year, tired of waiting, Mike went ahead and made his reservations, and e-mailed me his flight times with the comment, “This is where I’ll be the first weekend in May. Would love it if you were here too.”

Stirred out of inaction, I made my plane reservations and booked a hotel. Omaha is not an expensive hotel scene, except for one weekend a year, when tens of thousands of Berkshire Hathaway shareholders descend on the city, and \$59 rooms cost \$250 (still way cheaper than New York).

Why all the interest? *Since Warren Buffett founded his first investment partnership in 1956, an initial \$10,000 investment has grown in value to \$650 million dollars.* In Omaha alone, there are dozens of millionaires who

got that way by owning Berkshire shares.

In recent years, the Berkshire annual meeting has become “Woodstock for capitalists.” The main event of the weekend is the annual shareholders meeting, held in the Qwest Center, which is normally used for events like the NCAA basketball tournament.

For the Berkshire meeting, 35,000 people showed up. Most of the meeting consisted of Warren Buffett (age 78) and his investment sidekick, Charlie Munger (age 85), taking questions from shareholders (both in person and by e-mail), and from three financial journalists.

A fundamental principle at TGS is to observe what actual rich people do, and to follow their example. There is no better place to observe the wealthy than at the Berkshire meeting. During the lunch break, the bottom exhibit hall is full of thousands of shareholders, literally kicking the tires of the products of Berkshire portfolio companies like Clayton Homes, munching Dairy Queen Dilly bars, drinking Warren Buffett’s favorite Cherry Coke and hanging out with the Geico gecko.

The most noteworthy element of the meeting was the absence of panic or despair among the assembled shareholders, despite the fact that Berkshire shares lost 32% percent of their value in 2008, a total drop in market capitalization of about \$20 billion. It seemed that the Berkshire shareholders were not merely disciplined in the face of a historically unprecedented bear market, but actually untroubled.

That is probably a reflection of Buffett’s own placid

Continued on next page

temperament. He noted that he doesn't ever have an opinion about where the stock market is going tomorrow, next week or next month. His advice to investors: "Any chance you have to buy quality assets at bargain prices, do it. Don't worry about whether it might go down further. If you buy something at X, and later on you can buy it at half-X, don't worry about the fact that you bought it for X the first time. Buy it again."

In terms of today's volatile market environment, Buffett appeared cautiously optimistic. He thinks the stock market is cheaper now than it was in late 2007, but not super-cheap. Certainly, the market was much cheaper in 1974, which was the best period he ever saw for buying common stocks. The difference today is that competing investments, like money-market funds or Treasury securities, provide such low returns.

A great deal of the meltdown in the global financial system was the result of the arrogance of academic finance theorists and Wall Street practitioners, who used the tools of Modern Portfolio Theory to build highly-leveraged portfolios of low-quality mortgages, then peddled them around the world. They retained some of the worst bonds in their own portfolios. Buffett remarked, "You had these people stirring up the Kool-aid and then they drank it themselves." Munger observed that most of the CEOs of financial firms had little idea of the risks they were taking in their portfolios, though they pretended to.

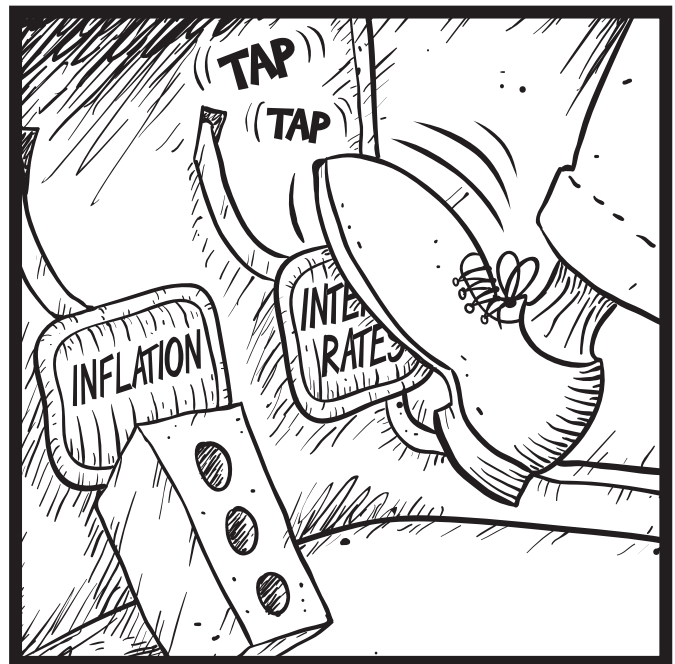
Why do business schools still teach complex finance concepts like Value-at-Risk, when they have proved so dangerous in practice? Remarking about how hard can it be to get people to change their ideas, Buffett quoted physicist Max Planck, "Science advances one funeral at a time." Buffett would prefer to see only two classes at business school, one on how to value a business and a second on how to think about markets.

Buffett's greatest concern going forward is inflation. He guarantees that the dollar will buy less five or ten years from now, and perhaps very substantially less. What

should individuals do to protect themselves? "The best protection against inflation is your own earning power, and the second-best protection is ownership of stock in a wonderful business," says Buffett.

Watching the cheerful multitudes in Omaha simply confirmed my belief that long-term investors are richer in large part because they are more even-tempered. They do not worry about the short-term price movements of the securities they own, as long as they are confident about the long-term prospects. Quite a contrast with the considerable number of folks who watch CNBC every day, and buy or sell according to the ever-changing short-term trends of the markets.

One of the most interesting discussions concerned the investment managers waiting in the wings should Buffett and Munger become unable, due to death or disability, to continue to manage Berkshire's \$55 billion investment portfolio. It has long been known that Berkshire has identified four possible successor managers. So how did those four do in 2008? "It appears they all under-performed the S&P 500," said Buffett. Didn't any of them avoid the crash by going to cash? "No," said



Munger. “And if they did, we’d take them off the list. They aren’t stupid enough for us.”

While Buffett and Munger were concerned about the current financial crisis, both remain optimistic about the long-term. Munger commented that it is always a mistake to think about your probable misfortunes. You should really think about your future opportunities. The future will be better than the past.

BUFFETT AND MUNGER’S *Rules for Investment Success*

- 1) Think long-term.
- 2) Own great businesses.
- 3) Never worry about the short-term direction of the market.
- 4) Don’t believe the hype from all the 150 IQs on Wall Street.
- 5) Be optimistic. Believe in America, or at least believe in capitalism and the dynamic potential of human beings. (Charlie in particular is very enamored of the Chinese.)
- 6) Fear inflation.

Buffett notes, “Americans enjoyed a seven-to-one improvement in their standard of living over the last century, despite wars and recessions, and despite the under-utilization of blacks and women, who were denied rights for much of that period.”

As Charlie Munger remarked with quiet confidence: “Now that I’m so near the age of death, I find myself more cheerful about the world economy.”

TGS Financial Advisors’ **INVESTMENT UPDATE**



Since our firm first opened its doors in 1990, the First Eagle Global Fund (formerly SoGen International Fund) and Overseas Funds have been an important component of our portfolios. In the last four years a number of key portfolio managers and securities analysts have left the funds. In 2007, Jean-Marie Eveillard came out of retirement to manage the funds, following the departure of several members of the investment staff. Now he has retired again, though he will remain a Senior Advisor to the Fund.

We have decided to re-position a component of our international equity dollars. We will be moving from the First Eagle Funds to the IVA Worldwide and International Funds, two relatively new funds whose managers include much of the former investment staff from the First Eagle Global and Overseas Funds. We are particularly happy that Charles de Vault, former lead portfolio manager of the First Eagle Funds, joined International Value Advisors last year and will serve as co-portfolio manager at both funds. Charles served as a member of the first TGS Financial Advisors *Investment Advisory Board* back in 1998. He is an investment manager in whom we have great confidence.

We continue to actively examine each of our mutual fund choices and all elements of our investment strategy, as we work to balance risk and opportunity in these very volatile markets.

If you would like a copy of the Morningstar report on the IVA funds, please contact Shauna Mace at (610) 892-9900 or shauna.mace@tgsfinancial.com.

PAY YOURSELF FIRST

by Joan Hill, Financial Planning Associate



We've all heard of the concept of paying ourselves first, and for many of us there it stays, in the "concept" bin in the back of our mind. For me, it's become more of an irritant lately as I anguish over the fact that there's nothing left over at the end of the month. We've even had to dip into our brokerage account a couple of times over the last few years. I contribute the maximum to my 401k and we pay extra toward our mortgage each month, but when my husband and I established our retirement accumulation goals with Jim in 2006, our commitment to save included contributions to our IRA accounts, and certainly did not account for withdrawals from our investment portfolio. I am determined to turn our not so perfect savings habits around.

fact

Studies show that individuals who are automatically signed up for their company's 401k plan when they start a new job accumulate substantially more wealth than those who are not.

We forget (and that's the whole point) that the government has a keen understanding of paying itself first. The IRS makes darn sure that a portion of every paycheck you earn is withheld for taxes. If you are able and have signed up to max out a 401k, paying yourself first works for you as well. Slow and steady accumulation becomes real when it is automatic, and there are some strategies you can use to further increase your savings. It's easy to establish Automatic

Clearing House (ACH) transfers into your Raymond James accounts.

First, be sure that you pay down high interest debt and that you have accumulated three to six months' living expenses. Chip away, and finally eliminate, credit card debt through automated online banking. Then set up ACH deposits into your taxable account to accumulate your rainy day dollars. When funds are transferred into Raymond James via ACH, they are available immediately.

Next, let us help you automate deposits into your Raymond James Roth or Traditional IRA accounts. By having your deposits automatically transferred from your bank or credit union, you eliminate the inconvenience of depositing checks. You can gradually accumulate up to each year's maximum allowed contribution, instead of trying to make a larger contribution all at once.

If you can start today, do so. Or, wait until you've paid off a debt and then pretend you haven't, using those dollars as newly "found" money to automatically invest. You might pretend you didn't get that raise or windfall and "do without it" by investing it.

If you haven't already, strive to make your retirement a more tangible goal. Set a specific retirement date and know how you plan to spend your time and where. Daydream, and if you can, hang pictures to remind yourself.

Let's not forget it was the tortoise who won the race.

HAVE YOU CONSIDERED A FAMILY MEETING?

By David A. Burd, CFP®



According to Stephen Covey, author of The 7 Habits of Highly Effective People, “Most families are managed on the basis of crisis, moods, quick fixes, and instant gratification – not on sound principles. Symptoms surface whenever stress and pressure mount: people become cynical, critical, or silent or they start yelling and overreacting.”

One of the advantages of serving clients since the late 70’s is the opportunity to deal with up to three generations of a family at any one time. Given the complexities of intergenerational planning, we are sometimes called upon to help execute and communicate the wishes of our clients. We realize that sometimes children are not informed of their parents’ wishes – some people feel it’s not important or it’s relegated to the “I’ll get to it later” list.

We suggest that you not wait to let your wishes be known. Your children (or close kin) should know: where the important documents are filed, how money and valuable objects should be managed, who has power of attorney and your wishes if you were to become incapacitated — just to name a few. If you are not comfortable with a face to face conversation with family members at least commit your wishes to paper.

A topic of importance that is often never discussed until it’s too late is eldercare. If one day you were no longer able to care for yourself where would you want to live? What can you afford? Can your children afford your eldercare expenses if you can’t? Who is responsible for making a transition happen? These are just a few questions that you and your children should have answers to *before* something happens.

If you are prepared to sit down with your family to start talking about your future wishes we stand ready to help. Our conference rooms are available for clients to host a meeting of extended family, and we can act as an active participant if you so desire. Your other professionals, such as your attorney or accountant, are also welcome to be involved in the meeting.

Take time to consider your legacy and communicate your wishes to your loved ones. Should you choose, we are here to help.



NEW and IMPROVED

TGS Financial Advisors’ web site

tgsfinancial.com

- Information about the firm
- Log in to your Investor Access account
- Subscribe to eNavigator
- Access current and past publications
- Keep up with firm news and events

