

THE
NAVIGATOR

A NEWSLETTER FROM



TGS FINANCIAL ADVISORS

Letter from the Directors

Tidal Waves & Meltdowns

Pray for Japan, that small island nation, with a population of 127 million people living on a land mass roughly the size of California. They are coping with the aftermath of a natural disaster (the tsunami of March 11th) and a technological catastrophe (the partial meltdown of three nuclear reactors at the Fukushima Daiichi nuclear power station).

The reactors were designed to withstand a magnitude 8.2 earthquake. They actually withstood a magnitude 9.0, almost 16 times greater. But they didn't survive the aftermath.

An unanticipated tidal wave, leaving destruction in its wake. A meltdown that was supposed to have been prevented by built-in safeguards.

It all sounds to us like the market history of the new century. We've seen two investment tidal waves (the technology bubble of the late 1990s and the real estate bubble of the 2000s) followed by two scary meltdowns (the crashes of 2000-2002 and 2008-2009). These two completed cycles, extreme over-pricing (bubble) followed by extreme under pricing (crash), demonstrate the catastrophic failure of the intellectual construct that dominates thinking about financial markets — the efficient market hypothesis, which holds that securities prices reflect a rational evaluation of future prospects, and that both bubbles and crashes are impossible to identify while they are happening.

A competing view of financial markets is emerging, which draws heavily on behavioral economics. We agree with economists like Robert Shiller, and investment managers like Warren Buffett and Jeremy Grantham, who believe that markets go to irrational extremes, driven by the intersection of rational self-interest with our intrinsically irrational human minds, subject as they are to emotions and to inherent defects of reasoning and perception.

We are now more than two years into a spectacular recovery from the market crash of 2007-2009. We worry about the growing evidence that the market wave is moving back into bubble territory, and we are taking steps to reduce portfolio risk before a potential future meltdown.

For the firm

James S. Hemphill

A handwritten signature in black ink, appearing to read "James S. Hemphill".

TGS' Annual Wealth Management Conference

Preserving Wealth in Today's Low-Return World

- Presented by Marvin Barron & David Burd -

For those of you who were not able to join us at our Annual *Wealth Management Conference* on May 17th, we thought it would be useful to provide a summary of the presentation given by the firm's Managing Directors, Marvin Barron III and David Burd.

In the presentation, *Flat, Low & Dangerous: Preserving Wealth in Today's Low-Return World* we covered three main points:

- *The firm's investment philosophy.*
- *Why the investment landscape is flat, low and dangerous.*
- *Why we are optimistic while we wait.*

I. TGS Financial's investment philosophy

"The way to make money is to recognize inflection points and take decisive action."

John Bogle, founder and retired CEO of The Vanguard Group said, "This is the toughest investment environment of my career." (Bogle has been in the business since 1951.)

Today, investment opportunities that add value are scarce. Our investment strategy is to maintain a long-term perspective, minimize downside volatility through a diversified investment portfolio, and take action when we recognize investments that are undervalued. Much of the time our job is not to act, but to observe—to wait patiently for a real opportunity to emerge.

How has the TGS investment philosophy worked? Using the 2011 Dalbar report, which provides data on real investors' returns, TGS Financials' Moderate Risk portfolio outperformed the typical stock, bond or asset allocation investor. Our diversified, price-driven strategy has reduced downside volatility during bear markets, while positioning us for growth when markets recover. (How many folks do you know who went to cash near the market low, and missed the spectacular recovery? At present, cash yields almost nothing.)

II. Why the investment landscape is flat, low and dangerous

As Tom Friedman pointed out in his book, *The World is Flat*, we live on an interconnected planet. There are no longer any little-understood pockets of investment opportunity just waiting to be exploited. In a flat world, capital flows easily to areas of even slightly-higher returns.

We expect stock returns to be 2-5% going forward and bond returns to be flat. With stock and bond prices high and interest rates low, there isn't much room on the upside, but there is plenty on the downside — and that is dangerous.

III. Why we are optimistic while we wait

We believe that we are part of a culture that is continually driven to innovate and prosper. For example, IBM never saw Microsoft coming, Microsoft didn't expect Google, and Google couldn't predict the success of Facebook. Eventually, someone or something will supersede Facebook. There will always be game-changing innovations that create new and exciting opportunities.

IV. How we are adding value to your portfolio today

While we wait, we're working to add value by implementing portfolio changes designed to lower volatility, decrease costs, and improve tax efficiency by reducing turnover. (See graphs to the right.)

The presentation is available to watch on our website at: tgsfinancial.com/publications.html. If you have questions about the discussion, or your specific situation, please contact Shauna Mace at (610) 892-9900 or questions@tgsfinancial.com. We will get you an answer or schedule a time to talk.

Chart 2: Volatility

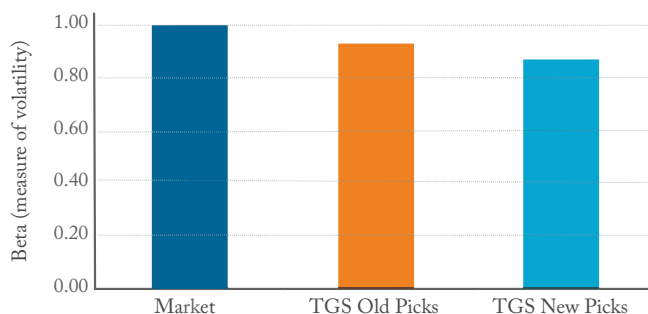


Chart 3: Expense Ratio

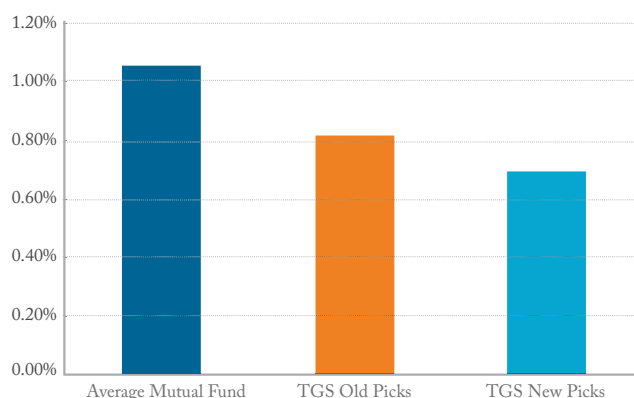
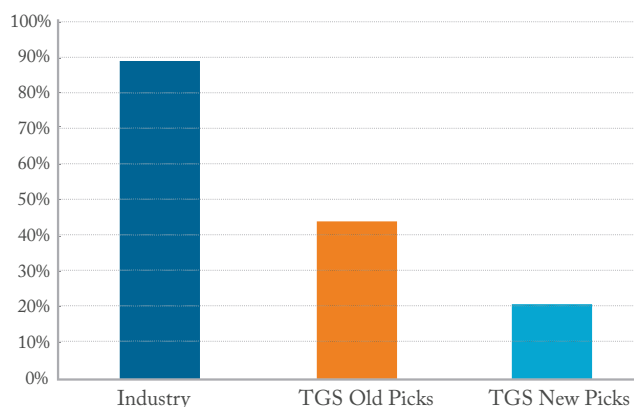


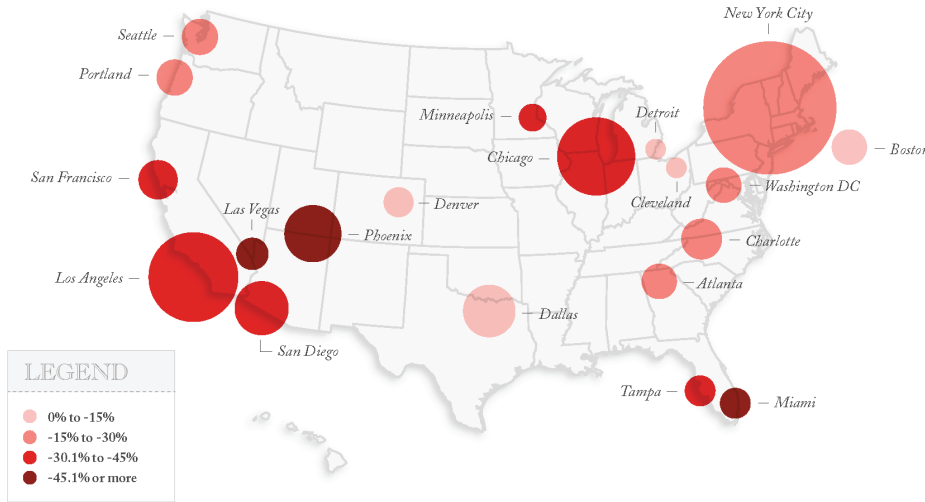
Chart 4: Turnover ratio



The Real Estate Market Time to Buy?

- by James S. Hemphill, CFP® ChFC CIMA | Chief Investment Strategist & Managing Director -

Percent change in real estate value
May 2007 - February 2011



TX-Dallas	-6.43%	NC-Charlotte	-15.65%	IL-Chicago	-30.66%	FL-Miami	-48.95%
CO-Denver	-8.75%	DC-Washington	-21.53%	CA-San Diego	-32.18%	AZ-Phoenix	-52.68%
MA-Boston	-10.32%	NY-New York	-21.59%	MN-Minneapolis	-32.51%	NV-Las Vegas	-56.24%
OH-Cleveland	-13.68%	GA-Atlanta	-24.85%	CA-Los Angeles	-35.53%		
		OR-Portland	-26.42%	CA-San Francisco	-36.48%		
		WA-Seattle	-29.02%	MI-Detroit	-39.67%		
				FL-Tampa	-41.76%		

We are changing our tune. For the four years leading up to the peak of the residential real estate market in 2007, we warned that home prices had parted company with economic reality, and that a crash was likely. Today we believe it may be time to think about buying a house again.

Why the change in our view? Prices are down. Inventories are high, and sellers are more realistic about pricing. Banks are beginning to unload their foreclosure inventory and interest rates are historically cheap.

This is not a true buyer's market, where assets (houses) are selling way below economic value. It is a disordered market, in which savvy buyers can maximize economic value using good tactics—if they can find a properly motivated seller.

One significant reason to buy rather than rent is that, after taxes, it costs less. Of course, there are also profound

psychological benefits to home ownership, such as the right to paint the walls lavender without having to worry about your security deposit.

Remember, however, that a home is an expense, not an asset; avoid buying too much house. Our advice remains to own the number of homes that you live in, no more and no less. Like politics, all real estate is local. In some cases it may make sense to rent, rather than buy, even in this buyer's market.

By the way, none of this suggests it makes sense to buy a Jersey Shore property as an "investment." Prices "down the shore" remain at more than 25 times gross rents.

(Breakeven is 10-12 times gross rents). At current prices, buyers are still subsidizing renters, as they have for decades. Owning shore property remains a "greater fool" game.

HOW TO MAXIMIZE YOUR REAL ESTATE BUYING DOLLAR

1. Be patient
2. Look for motivated sellers
3. Don't buy structural problems, but don't worry about stylistic defects
4. Buy a commodity house, not something that is antique and special
5. Don't buy too much house

Client Questions

How can I get a higher return on my cash reserves? Should I buy long-term Certificates of Deposit (CDs), Treasury notes, corporate bonds or bond mutual funds?

None of the above.

Interest rates on cash deposits today are the lowest they have been in generations. There seems a compelling need to extend maturities to earn a high return.

History suggests this is a bad idea. Consider the Yield Curves chart below. In 1981, short rates were actually higher than long rates. This is called an inverted yield curve. It is unusual, and it usually forecasts a recession. Back in 1981, given the ability to earn 14% returns on one-year paper, most investors stayed short—and missed the opportunity to lock in double-digit rates for up to thirty years. *This was the best time in our lifetimes to buy long-term bonds.*

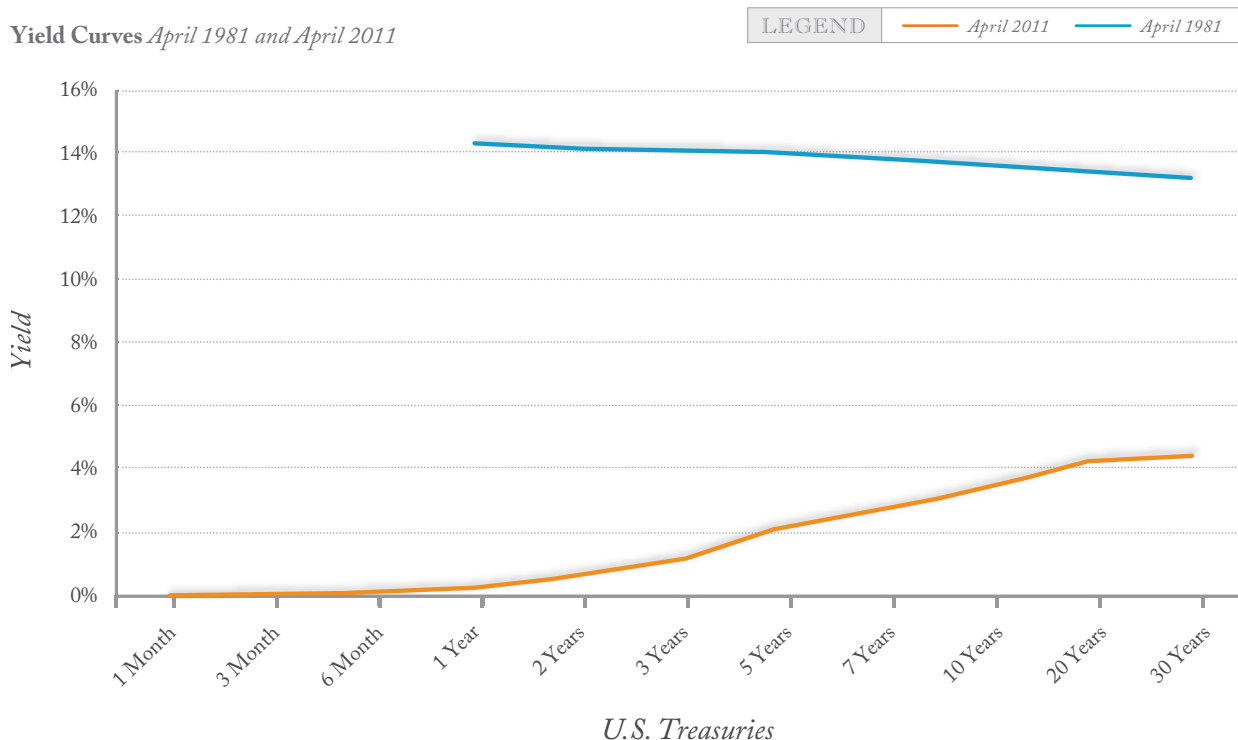
Today the yield curve is steeply positive. Twenty-year bonds yield 4% more than money-market funds, which return almost nothing. But if the economy strengthens or inflation

re-ignites, yields could rise sharply. When that happens, even high-quality, short-term bonds will lose value, and the higher interest rate you earn today might not compensate you for the loss of principal tomorrow.

Persuading clients to stay in cash during low-rate intervals is one of the hardest tasks a financial advisor faces. In a disordered market, there is no substitute for cash. Having cash allows investors to take advantage of opportunities and mitigate painful losses in other investments. Cash is not trash.

Submit your questions to Shauna Mace at (610) 892-9900 or questions@TGSFinancial.com.

Yield Curves April 1981 and April 2011



Goings On About Town

David Burd was quoted in the Huffington Post online article, *Why Doctors Should Be Allowed to Work Part-Time*, by Carolyn Anderson. A link to the article is available on our website at: www.tgsfinancial.com/news.html. Also, find the case study, *The Part-Time Prescription*, on the firm's website at: www.tgsfinancial.com/publications.html.

On March 3rd, TGS Financial Advisor Vincent Barbera participated as a panelist at the 2011 *FPA Business Solutions Conference* in Cambridge, MA. The panel discussed the benefits of data aggregation technology. TGS Financial Advisors utilizes a data aggregation system to help maintain a more accurate and up-to-date understanding of each client's entire financial picture.



TGS Financial Advisor Vincent Barbera (pictured far right) serves as a panelist at the 2011 FPA Business Solutions Conference

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by TGS Financial Advisors) or any non-investment related content (financial planning, estate planning, insurance, etc.), made reference to directly or indirectly in this newsletter, will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from TGS Financial Advisors. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. A copy of our current written disclosure statement discussing our advisory services and fees is available for review upon request.

Please remember to contact TGS Financial Advisors if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services. Please also advise us if you would like to impose, add or modify any reasonable restrictions to our investment advisory services. TGS is neither an attorney nor accountant and no portion of the newsletter content should be construed as legal or accounting advice.

Book Recommendations

Younger Next Year Live Strong, Fit, and Sexy - Until You're 80 and Beyond

by Chris Crowley and Henry S. Lodge M.D.

Reviewed by Jim Hemphill

I love this book. The author's thesis is simple — while we can do only limited things to boost our life expectancy, we can do a lot to improve our quality of life as we age. The old aging model, of gradual declining physical function and mental sharpness starting at age 30 and continuing inexorably downward through mortality in the 70s or 80s, [is being replaced by a vision of healthy, functional aging.

Vigorous workouts six days a week are the key. Did you know that an 85-year-old man who works with weights can become functionally stronger than the average 30-year old in just three months?

Heading into my mid-50s, with a younger, physically-fit wife and three athletic children, I like the idea that there is an alternative to the couch.

Highly recommended and potentially life-changing.
(There are versions of this book for both women and men.)

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