



## Saturdays with Jim: Knowledge Is Power

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Why does one person invest while another buys annuities and yet another buys only bank CDs? My father was an ardent advocate of life insurance and bank accounts until the mid to late 60's, when he began buying dividend paying stocks. Why did he wait until the 20 year bull market that began in 1946 (actually began in 1942 but who noticed) was almost finished? Simple. He was a young adult during the depression and he saw firsthand what imprudent use of one's money can do. So he was determined to do it differently. Unfortunately, his timing was 180 degrees off.

John Maynard Keynes and Warren Buffet's mentor Benjamin Graham piled into stocks in the 30's when they were cheap and unwanted. They were able to amass great portfolios of then-cheap stocks because the mass of people were concerned about day to day living and swore to forever stay away from those creatures of wealth destruction. And my father joined the crowd.

Life insurance became the favored investment. It had a growing cash value and in a pinch one could take a loan. No matter that the cash value grew at 3% a year - it was stable.

Who had the knowledge? Who was ruled by fear? Keynes and Graham were fortunate to have money, but even those with money in the 30's did not put it into stocks - or into real estate for that matter. The real estate craze did not begin until post World War II - and then continued largely unabated for some 60 years, aided by a huge baby boom.

How can we apply knowledge in the current environment on your behalf? We can buy cheaply. There is no better predictor of future returns than valuation - the value of a security relative to its price. So what are we buying now?

We've begun buying floating rate bank notes which rise as interest rates rise. We think that a period of at least slowly rising interest rates is almost upon us, so we want to protect your portfolios against loss derived

from holding bonds and other income securities which pay fixed rates of interest - invariably below market interest as rates rise. We're also more focused on domestic U.S. opportunities for the first time in years. Remember, knowledge is power. We are applying knowledge learned from watching cycles of up and down movement. The U.S. has been somewhat of a laggard in recent years. We think that is about to change and, though we still like the Brazil, India, etc. story, we like the U.S. story even better. Investing is about looking forward, not backward. Thus, we must resist our emotions which may be damaged from over-investing in boom times and heal them through the aversion therapy of smart investment, focusing on valuation as well as potential for gain.

Thank you for investing with us.

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