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## Saturdays with Jim: Worry Closets

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### Saturdays with Jim

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12/11/10



Post traumatic stress syndrome? Whew, thank heavens none of you suffer any lingering effects from the Great Bear of 2008-2009. Or do you?

One of our income clients who has been with us for over 15 years told Vivian a couple of weeks ago that she was pleased with our work but that she did not want to see another drop like she experienced in 2008. It's the equivalent of saying I loved the roller coaster ride but please, don't let me fall out from the top again." She has a point.

Today, let's discuss what might be in our worry closets, getting the cobwebs and murky corners exposed to the light of 2010.

#### **Worry Closet Item #1: Another Big Bear**

Our manager peers have widely pronounced that they fixed the leaks sprung during the Big Bear. Losses on the order of 30% won't ever happen again, they say. The repairs to their models will get them out in time - maybe. I know that I mistrust someone who missed the big call in 2007 and 2008 so badly as to create a hole they're still crawling out of, but maybe I'm harsh. After all, only about 2% of managers really got the call right. It makes sense. If more had bailed to government bonds, the stock losses would have been much smaller and the bond gainers likewise much smaller. You see lopsided results when the great majority are on one side or another of buy or sell. What have we done to prevent another rout?

Frankly, if you look at what we're trying to do, we did not fail at all. Remember, according to our first study of the Big Bear, account income grew 29% from January 2008 through December 2009. The account balances were more volatile than we'd like, but we succeeded on the major thrust of our work - providing a high, sustainable and growing income. Should our clients be worried about another drop? Given how vulnerable many retired people feel, her feelings are understandable and quite rational, in our opinion. To her credit, and to yours, neither she nor any of you bailed out during the Big Bear. But we suspect that at least some of you are worried about "another shoe" sometime in the future.

At the risk of mimicking those whom we said we mistrusted, we want to assure you that we have indeed plugged the leak which made your account balances more volatile than within the bounds of comfortable.

We've re-subscribed to a research service we left for more expensive and big name services which, frankly, failed us during the Big Bear. Our new-old service:

- Got out of stocks in late 1999 and into gold and commodities
- Got out of stocks and into bonds in December 2007 and stayed there until April 2009

The track record of this service is remarkable, but we thought that the bigger name services would get us through the mess we saw coming far better than a lesser known vehicle. We were wrong.

Will the re-establishment of the service be enough to let you sleep well each and every night, knowing that we're on the job? I sincerely hope so, for your mental health is of prime importance to us. We want to be focused on your needs and goals, for sure, but we also want to give you the assurance that we have the wherewithal to get you safely to those shores.

### **Worry Closet Item #2: The Economy**

Fortunately, economic growth, or the lack thereof, does not prevent us from investing for you. We just need to get the direction right. Economic decline suggests a certain allocation of your assets, stagnation another and growth yet another. We just need to get the call right, as markets precede economic results by several months (via the bottoming of the market several months before the first "green shoot" appeared). We have an investment formula for every economic condition. It's the exogenous events we're more concerned about - the 9-11's, the North Korean nuclear tests, saber rattling anywhere, Chinese inflation... the list goes on and on. Most of these things are what we call event noise - their effects dissipate quickly. They represent buying opportunities in the main.

About the only scenario that we can't readily adjust to is very high inflation - no one can without a printing press. Thankfully, outlandish inflation is far from sight at this point. Deflation is much more a worry than inflation is.

In short, though we recognize that we all have worry closets, we want to shine a light into the inhabitants of those dark places. If we are meeting your needs within your tolerances for risk and ambiguity, we won't be adding anything to these worry spaces any time soon. And, over time, the experiences of the Big Bear will become chimerical, hardly real.

Thank you for investing with us.

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