



Wealth Builder Weekly

Visit us on the web at: www.gaiacapital.com

Gaia Wealth Builder Client Weekly Newsletter Jan. 19, 2009 – Special Edition

Mining The Smart Vein

This is a message to you, our clients, and to those who may be prospective clients. What is our strategy? What are we doing to achieve it? Are there better strategies?

Well, if one only looked at last year one would dump stocks, commodities, even corporate bonds in favor of guaranteed securities like Treasury bonds and CDs. 2008 was uniformly bad for just about every investor save those hanging out in the safest of places. But perhaps 2008 was an outlier year and does not merit bench marking as the wave of the future. There is a lot of merit to this view.

We believe that most people are best served by a flexible strategy, one that can move among bonds, stocks, commodities in both long and short (short means that when values drop you make money) and even cash. The record of indexes has not been so great over the past few years. Which index do you choose?

Mutual funds were generally basket cases - those which stuck to a particular style, that is.

While we did not fare nearly as well as we would have liked, we (your accounts) did beat the S&P 500 Index (the most used one for comparison). And even better, we beat the S&P 500 Index since 2002, when we began the multi-asset strategy. And you did the feat with less volatility.

The multi-asset strategy is not without its problems. The biggest performance hurdle in the multi-asset strategy is found in the timing and sizing of positions - when and how much to invest in stocks. Which stocks? Which proportions? Add bonds, gold, oil, etc. and you get the point.

This hurdle aside, we prefer to hire money managers with the ability to make the switches with grace, agility and proper perception of the facts. The results are far smoother and better than attempting to pick and choose among the various style box strategies most advisors apparently like. But we return to the bottom line.

Over the past 10 years, the S&P 500 Index was essentially flat, eking out a 1% gain with dividends taken into account. In CDs you may have made 3%; in Treasury bills and bonds maybe 4% (with recent capital gains). But the time period you choose for measurement is the most critical, for results change markedly according to your choice. If you had done this measurement at the end of 2007, stocks would have wasted the CDs and the Treasuries by a wide margin. Herein lies the conundrum for the uninitiated. The very time you should be jumping into financial markets with both feet is the time you are cringing at your recent paper losses. And, I might add, vice versa. Herds thunder to invest just when things look great.

It has yet been proven to me that bonds or CDs by themselves make a good investment for the long

term - more than 5-10 years. Until it is, we will stick with our multi-asset approach (stocks, bonds, commodities, real estate and the works). In the end, we believe that the person who is not forced to choose but one investment style will be the winner.

Now, those just about to retire within 5 years of retirement should consider a different course altogether. Our research indicates that the best approach for pre-retirees is to begin their income program early by investing in dividend paying common and preferred stock and by compounding the income rather than taking it in cash.

There you have it. Perhaps we will enter 2009 with a new awareness of investing - buy when others are not buying, sell when others are buying in a frenzied manner and be circumspect in between. Fortunately, our managers are making the tactical decisions for us. We only have to monitor their work - as we are doing.

We may have passed a "Golden Age" of credit expansion and stock market gains, but we are surely entering another. It will be up to our managers to divine the inflection points. Stay tuned to these pages for updates.

Thank you for investing with us.

Jim Pursley

The opinions contained in this report represent the author's current knowledge and are based on sources known to him at the time of writing. Such opinions are subject to change at any time and are presented for educational value. Any other use, such as investment solicitation, is inappropriate and absolutely unintended by the author. Readers must evaluate information herein presented.

James C. Pursley, Chief Investment Officer . Email jim.pursley@gaiacapital.com
PO Box 823, Forest Grove, OR 97116-0823 . Phone (800) 395-6636 Fax (503) 992-8446