



Wealth Builder Weekly

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Forget Yesterday, Prepare For Tomorrow

We want to lay out an extremely simple strategy composed of two legs:

- Outperform financial markets on both upside and downside
- Position clients to participate in "The New Global Order"

Let's back up. Why invest you in financial markets? Why not just let you spend your money or invest in bank accounts? Any look at meaningful time periods shows that financial markets outperform savings instruments. It's not hard to see why.

It's about rewarding for risk. If one takes a measured risk by investing in a diversified way in the highest return areas of financial markets, giving great attention to value and price, then one wildly outperforms savings instruments over periods of 20 years, usually less. Most of you will be investing for at least 20 years - either in "accumulation" investments or in income investments. Ipso, it makes sense to endure pain now and then as markets go through gyrations in expectation of a greater long-term reward .

Note, though, we mentioned that one must pay great attention to value and price. It is NOT enough just to throw money at financial markets any time.

An investor who buys at the top in a giddy feeling of wealth calculation is doomed to be disappointed. That said, no one knows where the top and bottom are - until they have happened.

So we mere mortals must hang out with "relative value" as a mantra - how cheap things look relative to our estimate of their potential. This means selling investments which have reached or exceeded potential and buying ones which have great potential ahead. Unfortunately, the process is not rocket science and results in investment losses from time to time - like now.

This said, your losses are all on paper - they are not real losses until you sell. Second, your paper losses to date are far below of those who invest in market indexes because they are cheap. In fact, our paper losses to date are about half to two-thirds of the overall market's losses. Those of you who were with us since 2002 saw gains sometimes more than twice the index performance. The point? By paying attention to price and value, we avoid the serious blunder of an immediate fall, with a concomitant loss of potential. We also, in the process, increase your money nicely.

Those of you who are contributing systematically, as in retirement plans or IRA's, are gaining an excellent advantage now - buying shares at a lower price than they were a year ago, a month ago. By continuing to buy at low prices, you accumulate more shares. When share prices return to higher levels, you will have more shares to make this new trip - resulting in a far larger account than if you

had waited "until things clear up." By the time they clear up to someone not intimate with markets, a lot of serious money has already been made.

This said, measuring one's account from one point to another is a fool's game - one should take an average of at least five points, preferably spaced more than two years apart. Using just two points will tend to give you an inaccurate view of your accounts, as values are constantly changing.

A special note for conservative clients or those who have emergency funds with us: We endeavor to keep market losses at 50% or below those of an average. Of course, this steady approach also limits upside, but the goal is steady accumulation of capital without a lot of volatility in these accounts.

Summing up, we want to invest in robust financial markets which contain investments of high quality and high performance potential, at prices and values which are low enough so as to compensate for risk (providing an appropriate margin of safety).

The New Global World Order

Hint - it will NOT be dominated by the U.S. economy. We think that the world is in the process of a great transformation that will result in the establishment of a number of financial "power centers," the U.S. being just one of them. This does not have to mean a diminished standard of living for Americans. The Dutch have not been a world power for centuries, yet they are prosperous and well-fed. Downturns create the conditions for new leadership and for the excesses of a former period to dissipate. Rationalization then ensues and growth may resume. The process, as we are seeing, can be very painful as those who gained from the prior excesses or were swept into them get their heads handed to them.

The new economic power centers? China and Brazil come to mind first, followed by India, Canada, Mexico (if it can beat its drug violence), Poland and Turkey. The U.S., Japan and Germany will stand tall still and Russia may or may not enter "the club." Russia has a number of internal issues, not the least of which is a declining population (much like Japan).

How long until the transition to a multiple locus world order? Maybe 30-40 years or maybe 10 years - it depends on how governments and peoples acquit themselves in this downturn.

We are positioned to take advantage of this shift - for young as well as for older clients. It is notable that India's broad market stands at about 8,400 - that is almost three times what it was in 2002. Hong Kong is still comfortably above 2002 levels, too - about 12,000 compared to about 8,000. In contrast, the U.S. and European indexes have done a "round trip" and have actually fallen below the lows of 2002.

The developed world is the epicenter of the disaster du jour and is still looking for ways to cope. "Developing" countries have been there and done that and stand in far better shape than do America and Europe.

This said, developing countries will be hard pressed to fill the void left by a retreating U.S. consumer. Thus, the immediate period ahead may well continue to be dicey and volatile.

Summing up, we want to invest in the best places in the world, in the investments which show an excellent risk/reward relationship. The risk we take is not the kind of risk you face when deciding to insure your house, for in the latter case you could be almost completely wiped out by a fire which destroys your home. We will never go to zero - the true risk of investing - because we are diversified. But, as you have seen, occasionally it is necessary to keep a stiff upper lip as others may not have the same regard we do for certain investments or as others may have to cut back leveraged exposure by being forced to sell by their "margin clerks."

We have a plan - and a defensible one at that. Next week, we'll explain the fund managers we have chosen to guide your accounts. It should make for interesting and informative reading.

Thank you for investing with us.

Jim Pursley

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