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Building Wealth, Wisdom & Well-Being

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What we have learned from the Market Crash of 2008

by

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There are any numbers of bearish concerns that haunt us as 2009 unfolds. Included among these are:

- Liquidity problems in the municipal bond market
- Further devaluation of the U.S. dollar
- Mounting trade and budget deficits
- Distrust in financial information and institutions
- Looming crisis in Medicare and Social Security
- Possibility of higher taxes affecting corporate profits
- Financial standing of large insurers and banks

Against this very uncertain backdrop we have attempted to engage in conservative financial planning and investment account management. We initially foresaw the recession and contacted our clients in January of 2008 to recommend a significant reduction in equity (stock) exposure to 40% or less. In several cases, clients asked us to dial down the exposure even more. As this is written, our clients average between 10% and 25% in equity exposure. While this has helped in terms of accounts not being hit quite so hard, our client accounts are down in value nonetheless. Having client accounts down only half or less than the market return is still no place to hang our hat. It does not compensate our clients for the significant losses that they have incurred as both the stock and bond markets were hit. In fact, there were virtually no places to hide as the market collapsed with the exception of short term Treasury Bills. During the bull market of 2003 – 2007, clients had very little interest in these low-yielding notes - my, how things have changed.

What prompted this article was a very forthright question from one of my clients who asked me to pretend that we were sitting together in early September of 2008 before the market collapsed. He then very pointedly asked, “What have you learned?” I commended him for asking this question and pointed out that far too few clients had asked anything similar. It’s obviously critical that your financial planner learn not only from continuing education, seminars and the like but perhaps even more importantly from experience. I thought that it was an astute and very appropriate question to ask. While I answered his question as best as I could on short notice, I have since spent significantly more time reflecting on the question and the answers I would give to anyone who cared to know. So here they are, unfiltered and laid bare.

- Act on our guts or years of learned experience.
- Plan for the worst and hope for the best.
- Disregard advice that violates common sense no matter how eminent the source.
- Admit and correct mistakes – sooner rather than later.
- Be skeptical, not cynical.
- Trust our own research.
- Know that clients think in percentages when their accounts are going up and in dollars when their accounts are going down.
- Realize that cash is a bona fide investment asset category.
- Know that there are several aspects to a secure financial situation. We must consider all of them: income, expenses, cash flow and debts. The value of a client’s investment account is just one of them.
- Be adamant that diversification matters.
- Communicate proactively, stay open, listen, be a soundboard and keep our information sources varied.
- Communicate that alternative investments are an option that can

be explored.

- Admit that the previously unimaginable must now be imaginable.
- Be aware that clients want to know that we are concerned, not scared.
- Encourage clients to not buy high and sell low, which is what fear promotes.

In keeping with this theme we have learned additional lessons that require further explanation.

First, commit to what we do well. We offer comprehensive financial planning that reviews and evaluates every aspect of clients' financial lives – protection, retirement, investment, tax and estate planning. We do this work well, leaving no stone unturned. We help clients shore up their insurance and often help them save money in the process. We help target reasonable retirement goals and sustainable, inflation adjusted income. We help create well diversified investment portfolios that mitigate risk and produce long term positive results. We help clients plan for their tax liability, reviewing every available deduction and tax saving strategy available. We lastly help clients manage their estate planning and assist in the administration of their wills and trusts after death. Far too few of our clients have retained us for this service because of costs. The cost would have been a very small price to pay for the assurance that their plans remain on track. We plan to roll out a new planning service based on the fact that it's time to reassess. The game has changed, circumstances are different, the future is not like the past and it's time to plan based on what we know, not what we think or project.

Second, get the word out. We are very fortunate as a firm in that we have lost very few clients during this economic storm. In fact, we are net positive clients in that we have more now than when this all started. We have picked up several new clients whose planners would not call them with bad news, who did not proactively communicate, who did not foresee the recession and who chant the prevailing Wall Street Mantra "Stay the course, stay the course, stay the course". You can help us in this regard, because your friends, neighbors, co-workers and family members are suffering without a light at the end of the tunnel. Tell them about us. While they have to meet our minimums, they nonetheless deserve the best guidance that you can give them.

Third, diversify more broadly. We realized that we have had far too much dependency on our managed account platform which clearly did not have options for us to quickly react to the market collapse. It did not offer alternative investment options and restricted our ability to move quickly in response to this crisis. We have done something about this situation and are diversifying portfolios much more broadly than ever before. Please contact us for an in-depth, personal review of your existing portfolio.

Not all of this can be accommodated on our managed account platform. As a result, we are setting up accounts with different custodians. We have the ability however, to provide consolidated reports that include every asset our clients utilize no matter where it is held. You will appreciate our new reporting capabilities.

Fourth, neither bull nor bear markets last. If you agree with this statement, as we do, then followed to its logical conclusion, we should be harvesting gains into bull markets and selectively buying during bear markets. These are the things our clients understand but are loath to do. Examine your fear and determine whether Warren Buffett, who is on a buying spree, could be so "wrong"? We're close to recommending an increase of 20% in equity exposure because we believe that there is much more upside than downside potential in the stock market from this point, even if the market tests new lows. If you agree it is perhaps time to talk in more detail about such a move.

Fifth, retain our integrity. This may seem obvious, but far too many "financial advisors" prey on fearful clients. You may have been contacted by them. They offer "guaranteed" accounts that sound too good to be true and very likely are. The shysters show up during periods of significant fear as well as euphoria – whenever emotion rules decision making. Fear motivated purchases are too often regretted. We will not engage in these types of sales tactics – never have, never will. They don't serve our clients which means they ultimately won't serve us. Rely on your intuition and instinct. You ultimately know what is best for you and your family.

We have learned quite a lot in the last few months. It feels like a decade of experience stuffed into a six month time frame. It has been unpleasant for all of us and it's not over yet. Nonetheless, the seeds of opportunity lurk just below the surface in any crisis. We have all learned about living within our means rather than on borrowed money. We are largely paying off our debt and accumulating savings, things this country and indeed the world desperately need to do. It is called fiscal responsibility for each and every citizen and frankly, it's about time. I hope you will learn from the hard lessons this experience is teaching. I hope you will choose to live more responsibly not only with your finances but with the resources of this planet. At the end of the day, an economy based on citizens who live within their means, save and invest can only be healthier. Take these seeds and nurture them. Do your part. Be a model, not a casualty.

Will Your Future Look Like Today?

Reprinted by Greg Banner from the Exit Planning Newsletter

Near the end of 2008 the economic downturn had forced many owners to postpone their plans to exit their companies. The following are several actions owners could take to respond to that delay:

- Ride out the storm doing one's best to protect value.
- Use the time to build business value.
- Avoid the delay altogether by selling as soon as possible for whatever one could get.

If you are one of those owners who face staying in your company longer than you planned, there is both good news and bad news. The good news is that you are not alone: According to a 2005 PricewaterhouseCoopers' survey of 364 CEOs of privately held, fast-growing companies, "nearly two-thirds … plan to move on within a decade or less: 42 percent within five years, and 23 percent in five to ten years." ("Wide Majority of Fast-Growth CEOs Likely to Move On Within Ten Years, PwC Finds." January 31, 2005.)

The bad news is that you are far from alone. On that golden day when the economy shows signs of recovery, all those Boomers (who were planning to leave in the next few years anyway) *and* all those owners whose exits were preempted by the recession will be clamoring for the exits. Selling a company in a buyer's market is about as desirable as selling your company during a recession.

Today's reality is that many owners find staying in their companies to be more palatable than attempting to sell for today's prices. If those owners, however, do nothing to prepare for the day they'll be able to sell, they will find themselves (three to five years from now) in a worse position than they are today: trying to sell a not-quite-ready-for primetime company in a market flooded with other (aging) sellers. That's really unpalatable.

So, what can you do today?

- ***Begin with the end in mind***. Create written goals and a timeline to accomplish those goals. For example, do you know how much cash you will need from the sale or transfer of your company to support a comfortable life after the sale? Most owners think they know the number, but haven't carefully examined the assumptions supporting their guesstimate — especially given today's new financial realities.
- ***Create a company that attracts deep-pocketed buyers (third parties or insiders)***. Today, buyers demand a well-run company with an experienced management team that enjoys a "competitive advantage" when compared to others in the industry.
- ***Time***. Use the time afforded you by a flat economy (and by your inability or unwillingness to sell your company for what you want or need today) to develop your management team and create a superior performing company. It simply takes time to implement the changes necessary – within any business – that lead to the creation of more business value. You need time to figure out how to restructure the business to create additional value, time to make mistakes and time to correct and adjust course.
- ***Get help***. Use others — ideally advisors trained to help owners plan.

John Jenkins gets the Cover of Financial Planning Magazine

John appears on the cover of the March 2009 issue of Financial Planning Magazine. He was one of several planners in the country quoted in an article about practice management.

Gala Huge Success

Our 8th annual Circle of Friends Gala which took place on February 26th benefitting the Autism Center at Rady Children's Hospital was a huge success. Not only was a great time had by all in attendance, our objective of giving back to the community and raising funds for worthy causes was met in a big way. With your help we raised just over $35,000 for the Autism Center. We are deeply grateful and thank you for your participation and charity.

Look at that row of chips in front of John's Mom! She's a craps shark!

Please keep this annual event in mind and reserve space on your calendar next February to join us as well as to consider co-sponsoring this worthwhile and fun event.

Ron Ceniceroz Bids Adieu

As with any investment, you have to set the objectives, understand the risks, trust the people making the day-to-day decisions and then monitor it closely to ensure that your investments are growing according to your needs. Eventually, as your objectives and risks change, you make necessary investment adjustments.

For the past 17 years, I have invested in Asset Preservation Strategies. Throughout the years, I have been surrounded by integrity, expertise and credibility. The firm has allowed me to grow from a young, independent advisor into a seasoned, professional Financial Planner.

When I initially joined the firm, I had specific career objectives. These objectives were not only met; they far exceeded my expectations. As I look back over my experience with Asset Preservation Strategies, the firm's philosophy has ingrained in me a sense of camaraderie, team spirit, and most of all, respect for my colleagues.

I have trusted the firm with my professional growth, a trust for which I have been richly rewarded. As a business owner, entrepreneur and Financial Planner, I have acquired the skills necessary to venture out now as an independent Financial Planner. I am eager to utilize all the experience and expertise I have acquired during my two decades in the financial services industry.

Currently, I am in the process of implementing the steps necessary to establish my own Financial Planning firm. My transition goal is set for May 1st, 2009. *It is important to note that this transition will not affect your investment or insurance accounts in any way*. I am maintaining my relationship with Securities America, so no additional paperwork will be required from my existing clients. It will be business as usual, just from a new location. I will contact my clients as soon as possible with location and contact information details.

As you can imagine, this was a difficult decision for John and me. Our individual objectives have changed over time. Now it's my time to establish my own Independent Financial Planning firm.

I have invested wisely in Asset Preservation Strategies. It is time to take what I have learned and apply it toward fulfilling my professional goals and dreams. I am excited about the professional experience and challenges that lie ahead.

Ronald Ceniceroz

"Laughter is the language of the Gods." ***– Buddhist Saying***

Workshops

All workshops take place at the Southern California Institute, 3636 Nobel Drive, Suite 450, San Diego, CA 92122. **Please RSVP to Sam at (858) 455-1825 or samhaskell@asset-preservation.com.**

Strategies for the Large IRA

Strategies for the Large IRA will be presented by Ronald R. Ceniceroz on Thursday, April 2, 2009 from 2:30—4:00 PM.

This workshop will provide a comprehensive set of strategies for the large IRA. Topics include leveraging the large IRA through life insurance, stretching the IRA over the life expectancies of younger beneficiaries and converting the IRA to a Roth IRA all while using Tax Bracket Maximization. Ron will discuss the "how to", the "why" and "why not", along with the most appropriate circumstances and the benefits available.

Grubb & Ellis Healthcare REIT

Grubb & Ellis Healthcare REIT will be presented by Damien Gallagher of Grubb & Ellis on April 8, 2009 from 10:30 to 11:30 AM and again from 6:00 to 7:00 PM.

At this workshop you will learn about an investment opportunity in the Grubb & Ellis Healthcare REIT and receive a prospectus.

Grubb & Ellis Healthcare REIT is a company that is qualified and operates as a real estate investment trust (REIT). The REIT was developed to invest in medical office buildings, healthcare related facilities and quality commercial office properties. Up to 200 million shares are being offered at $10 per share (a maximum of $2 billion in stock).

If like us you believe that the demand for healthcare in this country is only going to rise, you'll want to learn about the Grubb & Ellis Healthcare REIT.

Rollover IRAs

This workshop will be presented by John Jenkins, Greg Banner and Ron Ceniceroz on April 28 from 10:30 AM to Noon and again from 6:00 to 7:30 PM.

The workshop will present the reasons and considerations involved in rolling a company retirement plan such as a 401k into a Rollover IRA. We will cover the pros and cons, tax and investment ramifications of this strategy. Please invite anyone who has a 401k plan at a prior employer.

Town Hall Meeting
An Open Forum

We are hosting a Town Hall Meeting on Tuesday, May 5, 2009 from 10:30 - Noon.

The meeting will be facilitated by John Jenkins, Greg Banner and Joe Strazzeri, Esquire.

You should consider attending if:

- You are concerned about a possible prolonged recession
- If you would like to understand how economy got into this mess
- You would like to know what to do now
- If you are afraid of outliving your assets

In addition, we will facilitate an open, question and answer session on any additional topics, concerns or questions you may have.

Please RSVP and bring a friend along with your questions.

Seven Steps to a Successful Business Exit

Seven Steps to a Successful Business Exit with Gregory Banner, CFP® CLU®, Asset Preservation Strategies, Inc., and Alejandro Matuk, Esq., Strazzeri Mancini LLP, will take place on May 7, 2009 from 2:30—4:00 PM at the Southern CA Institute.

Every business owner needs to plan with the end in mind as to how they are going to transition out of their business. Exit planning is a customized process of setting goals and deciding how to best achieve them. Proper exit planning will help maximize a business owner's return and minimize the tax liability when the business is transferred or sold.

Mark your Calendar

Encinitas Guitar Orchestra

The Encinitas Guitar Orchestra is once again rehearsing for a performance on Friday night, April 24th at 8:00 PM at Bethlehem Lutheran Church, 925 Balour Dr. Encinitas, CA 92024. Suggested donation is $10.

The orchestra will be playing selections that include Classical, Spanish, Show tunes and that will feature different musicians in solo, duo, trio and quartet performances. John leads section two of the orchestra and will be playing in a duo.

The performances are great fun for the whole family and are particularly enjoyed by children because the musicians range in age from 10 to 70.

The church fills up quickly so plan to get there a little early. If you plan to eat at a restaurant in the area, make your reservation no later than 6:00 PM.

John also still has a few CDs of recordings from prior orchestra performances. They are offered for $10 so as to offset the costs of production.

Paula Reha has left the employ of Asset Preservation Strategies. Please join us in wishing her the best in her new endeavors.

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