ADVISOR PERSPECTIVES

Letters to the Editor

March 24, 2009

The following letters are in response to our article, [Why Diversification is Failing](), which was published March 3, 2009.

Dear Editor,

Nothing wrong with diversification, or the Modern Portfolio Theory. But remember, these were developed in the early 1950's and stock and property markets went up until 1968. Then, in the 1970s, recessions and inflation disguised the losses. Then, in the 1980s and 90s they worked again. Since 2000 we've been in a long term bear market for stocks and property but a long term bull market for commodities, particularly gold and oil. Therefore the assets that should make up a diversified portfolio should replace stocks and property (and bonds if the US keeps playing silly buggers*) with commodities.

Charles Drace
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Christchurch, New Zealand

** Translation: Playing silly buggers means pushing rates down as well as printing money.*

Dear Editor,

Anyone who takes a position during the middle of a market event and makes absolute claims based on the event loses all credibility with me. Diversification has withstood the test of time for any *long-term investor*. The only people hurt by this market are the ones who are short-term speculators who believe this time is different and those who panic and bail out, believing the markets will never recover. The bear market of 2000-2002 is a perfect example of how diversification does work over the long-term. My belief is when we get to the other side of this bear market, the conclusions of all the naysayers will be proven wrong once again.

This certainly has been an unsettling market decline for everyone, and it's always easy to draw conclusions when we are in the midst of a downturn. My guess is

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once the markets recover all these radical positions will be long forgotten....just like they always are.

Sincerely,

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