



Letters to the Editor

July 7, 2009

The following letter is in response to our article, [Bonds for the Long Run? Not Quite Yet](#), which was published on April 21.

Dear Editor,

I enjoyed your review of Arnott's article. I, too, have used the 1966-2008 period to show that stocks do not always beat bonds. In a presentation I gave last fall, I used an assumption of rolling over the 5-year every three years; i.e., buy a 5-year Treasury, sell it in three years (as a 2-year) and buy another 5-year. During the three-year holding period, I assumed interest payments were kept cash (a conservative assumption). Simple strategy. I then compared that to a dividend-reinvested S&P500 portfolio. Bonds beat stocks from 1966 to 2008.

But – when I presented those results, I confessed to my audience that I had *cherry-picked* my periods! You can claim to prove anything if you search the databases hard enough and conveniently leave out evidence contrary to your assertion.

The key to this winning period for bonds was the *starting point chosen for stocks*. If you pick a starting point for stocks when they are 40+% overvalued (using the Shiller measure of 10-year normalized P/E ratios in my case) and an ending point where they are sitting right at fair value, you have a rather disappointing experience with stocks! You lost 40% of your potential return simply due to stocks returning to fair value. If you are a money manager who is paying attention to expected returns, you should have expected that to happen in 1966 – and not be surprised by it today.

Today, the more relevant question for investors is what holding period to consider when we have a fair-valued starting point for stocks, and compare that to long-term bond yields at low-to-normal levels. For stocks to underperform bonds going forward, you will need to assume that stocks will move below fair value steadily – and stay there for a long, long time. If stocks stay at fair value, they will probably return inflation plus 3.5% or so, like they always have when measured across fair-valued holding periods. Bonds have NOT paid inflation plus 3.5% over long periods of time, and it would be irrational to expect them to this time around.

Cheers,

Rick

Rick Ashburn, CFA



Creekside Partners Investment Counsel
Lafayette, CA

The following letter is in response to Dan Richards' article, [In Search of Unconventional Thinking](#), which appeared last week.

Dear Editor:

In his article, Dan Richards coherently argues that “you have to be prepared to differ from the pack and defy conventional thinking,” yet the last sentence in the article encouraging advisors to remind clients that “the last place you’re likely to find fresh insights is on CNBC” contradicts that very premise. Bashing CNBC, and/or painting the entire network with a broad brush due to one or two shows or hosts, is conventional thinking these days. As a guest on CNBC and other networks I am always on-message delivering ideas in a thoughtful and mostly contrarian manner. I am certainly not the only one. At times, offering valuable information isn’t entertaining in its delivery, but that is one of the challenges when mixing investing with the TV business.

Advisors know that when the S&P 500 is down it doesn’t mean every stock in that index is also down. Similarly, good people and information can be found mixed into broadcasts if we actually do a little work and thinking for ourselves. Most investors have difficulty cutting through all the noise; however I can name a few places other than CNBC that should be considered the “last place” to likely find fresh insights.

Whenever possible, I pass on the “sound-bite” offerings and try to only choose the media that allow me to get into some level of depth. It is absolutely more and more difficult. “Personal finance” can seem boring to producers since there rarely is an element of breaking news. (Isn’t everything breaking news on screen these days?) Financial advisors professing timeless advice don’t always bode well for 24/7 TV.

Thank you for your continued articles. With the limited time we all have, and so much information available, I try to only spend time on the articles that are worthy. I enjoy reading yours.

In closing, I believe we agree there is no greater time to be an advisor and help people get to where they need to be - especially in contrast to conventional wisdom.

Regards,



Doug Flynn, CFP, ChFC
Flynn Zito Capital Management, LLC
Garden City, NY

Dan Richards responds:

Doug,

Thanks for your note.

I don't disagree for a moment that there are guests and opinions on cable TV stations who offer fresh perspectives and reasoned opinion ... as someone who regularly appears on a financial television channel myself (Canada's Business News Network), I am sympathetic to those voices.

The difficulty for viewers is that these are the rare exception – and all too often get drowned out by the louder, more simplistic opinions.

At least two reasons help explain this.

The race for ratings, exemplified by CNN's downward spiral into greater and greater sensationalism to compete for viewers since its founding by Ted Turner in 1980, creates a challenge for serious-minded viewers. This leads to a pattern of seeking out guests who will offer extreme (and sometimes bizarre) opinions and foment controversy. After one recent tough day in the markets, I saw a guest who was introduced as a successful trader start by saying "The gates of hell opened today and we stared into the depths of Armageddon."

Second, dealing with complex issues is inherently difficult in a three- to five-minute interview – the short attention span environment of most cable news. This forces an unhealthy level of oversimplification and lack of nuance, making it very difficult to get into the depth of analysis that many serious financial issues demand.

The bottom line is that I question whether most television programs as they've evolved today with their short news cycle, quick hit, sound-bite mindset are vehicles that lend themselves to discussion of complex financial issues. Those of us who've been around for a while think fondly of Wall Street Week when it was hosted by Louis Rukeyser - although that show never had a big audience in pure numbers, but it provided a forum for serious and in-depth discussions of financial matters. To my knowledge, that simply doesn't exist anymore.

That doesn't mean that you and I shouldn't keep trying to bring insight and serious points of views to our appearances on financial television shows, but it is tough to get



into a meaningful discussion with an often ill-prepared and frequently ill-informed host in four to six minutes.

Dan Richards

www.advisorperspectives.com

For a free subscription to the Advisor Perspectives newsletter, visit:
<http://www.advisorperspectives.com/subscribers/subscribe.php>