The Ten Best Articles You Probably Missed

By Robert Huebscher
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Great articles don't always get the readership they deserve. We've posted the 10 most-widely read articles for the past year here. Below are another 10 that you might have missed, but I believe merit reading:

1. Lessons from Yale's Endowment Model and the Financial Crisis (by Geoff Considine) – April 20 – The devastation caused by the crash of 2008 was not limited to individual retirement portfolios. The endowments of most prominent universities suffered terribly, causing many of these institutions to drastically slash budgets and cut back planned capital spending. Yale may have the most respected investment acumen, but its performance during the 2008 crash was far from stellar, leading many to question the validity of the assumptions that underlie the endowment model. By constructing a portfolio that serves as a proxy for Yale's and simulating it using Monte Carlo analysis, Considine showed that Yale's performance was worse than what would be mathematically expected, but not significantly enough to question the endowment model's tenets.

2. Seth Klarman is More Worried than at Any Time in his Career (by Robert Huebscher) – May 25 – The concern that the dollars he earns for his clients will lose their purchasing power is always on hedge fund manager Seth Klarman's mind. The possibility that the government will continue to print money to solve our economic problems has left him more worried than at any time in his career. "There are not enough dollars in the world to do that, unless we greatly debase them," he said. As founder and president of the Boston-based Baupost Group, Klarman has compiled a track record of 20% annual returns over the last 28 years. Most remarkably, in only one year has he lost money.

3. Flaws in Vanguard's Withdrawal Strategy: Income versus Total-Return Portfolios (by Geoff Considine) – November 2, 2010 – Vanguard advertises that its mission is to simplify investors' retirement decisions. In a recent study, however, it oversimplified the critical choices investors and their advisors face in constructing a portfolio for the withdrawal phase of retirement. This study glossed over a number of issues, some of which have a substantial bearing on its results. This article explored the issue of income versus total-return strategies in a manner consistent with the Vanguard study, but found that a total-return strategy does not enjoy an advantage over an income-oriented approach.

4. Return Distributions and the Shiller P/E Ratio (by Keith C. Goddard) – February 2 – This article expanded on ideas developed by Joseph A. Tomlinson in a series of articles for Advisor Perspectives on the topic of the Shiller P/E Ratio as a predictor of future returns in the stock market. (See Advisor Perspectives: Shiller P/Es and Modeling Stock Market Returns, January 19, 2010.) Specifically, this article examined the distribution of three-year returns in the stock market following different starting points for the Shiller P/E ratio on a monthly basis since 1884 to illustrate that the historical distribution of rolling three-year returns in the stock market is not random.

5. Three Words to Blow Away Clients (by Dan Richards) – June 8 – Every advisor has the goal of building deep relationships with key clients, partly to foster loyalty and increase the assets you have from them, partly to open the door to referrals. One way to do that is to have clients "wowed" by their experience in dealing with you, and three key words create that "wow" effect with important clients.

6. Investing $15 to Create an Unshakeable Client Bond (by Dan Richards) – October 26 – Dan Richards hosted a roundtable lunch with a group of affluent investors. One attendee was a senior partner in a leading law firm and revealed how his advisor turned a $15 investment into a lifelong client relationship.

7. Steve Leuthold: The Market will Rally This Year (by Robert Huebscher) – January 19 – Leuthold is chairman of the $4.5 billion Minnesota-based Leuthold Group, where his funds have consistently outpaced their peers over long time horizons. Based on relative good news from earnings announcements, he predicted growing enthusiasm and a 16-20% gain in the stock market in the first six months of this year. Leuthold also forecasted that the S&P 500 would reach 1,300-1350 and a normalized PE of 19-21, at which point it would be "clearly overvalued," he said. Those advances, Leuthold predicted, would be powered by "momentum, breadth, and divergence" – and not by fundamental undervaluation.

8. Paul Krugman on Deficits, Taxes, Inflation, and Recovery (by Dan Richards) – January 5 – Dan Richards interviewed Krugman, the Princeton economist and outspoken columnist for the *New York Times. "* I'm not worried about deficits," Krugman said. "The flow does not concern me. It's the stock – the fact that we are looking probably at consolidated debt at all levels of government of 80% or 90% of GDP 10 years from now. That's not five-alarm level but it's not good."

9. Improving on Buy and Hold: Asset Allocation using Economic Indicators (by Georg Vrba) – August 24 – Most long-term stock market investors follow a buy-and-hold strategy, one that makes big losses unavoidable when major downturns strike the stock market. This strategy assumes that an investor cannot know when to switch from one asset to another and that if one avoids the bad days of the market, one is also likely to miss the best days. Vrba presented a way to resolve this dilemma. His model is based on various economic indicators that provide timely buy and sell signals for the S&P 500 index.

10. Nouriel Roubini on Crisis Economics (by Michael Edesess) – July 13 – There's good reason why Nouriel Roubini has been dubbed Dr. Doom. After reading his book co-authored with Stephen Mihm, *Crisis Economics*, Edesess despaired for our economic system, but not because the book screams gloom and doom on every page – it doesn't. The book is a pragmatic, even occasionally routine and boring analysis of financial crises, particularly the recent one, and what to do about them. The details as explained by Roubini and Mihm, however, make the recent crisis seem inevitable, hard to stop, and very hard to keep from happening again.