

# notes from the assabet

First Quarter, 2010

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## KaChing!

It's an obvious truth that spending choices aren't all about money. In 2010, both of us are experiencing that truth personally as we plan for a wedding (May 15 for Lisa's daughter, Erin) and a Bar Mitzvah (October 16 for Wayne's son, Benjamin). Both are lifestage celebrations with religious significance, both revolve around dearly loved children, both occur in the presence of friends and family, both involve decisions about expense.

Weddings and Bar Mitzvahs also have in common the many years of expectation during which fantasies can evolve. For our two families, the fantasy gestation period has been the same: 13 years from the year Benjamin was born, 13 years from when 10-year-old Erin first started thinking about her wedding day. During those years, we mused about the occasions from a safe distance, that is, without a calculator in hand.

Now that we are embroiled in the financial realities, we've become interested in the wedding and bar mitzvah phenonema. We realize that in those 13 years, the amount of energy and money devoted to those occasions has skyrocketed. Of course neither the beginning of a marriage nor the transition of a Jewish boy into spiritual adulthood requires a ceremony or a party. Yet in American culture at this time in history, weddings and bar mitzvahs are major events. Depending upon the data source, the average cost of a wedding in this country is now in the neighborhood of \$28,000, and was up ~75% over 15 years before 2007 (about 20% higher than the general rate of inflation). The average Bar Mitzvah nationally ranges between \$15,000 and \$30,000 with the greatest

extremes of lavishness in Los Angeles and New York. Every one of our readers has attended events whose costs greatly exceeded those averages.

Cultural media have stoked our awareness and our appetite through reality TV and films. There currently are 18 wedding related TV shows including several which celebrate bridal extravagance ("Say Yes to the Dress" and "My Big Fat Fabulous Wedding" for example). "Keeping Up with the Steins," is a 2006 comedy about one family's goal of surpassing friends with a bigger and better Bar Mitzvah.

We also learn about the celebrations of the rich and famous. Most of us can recall the paparazzi clamoring to get shots of the Jennifer Aniston-Brad Pitt million dollar Malibu wedding in 2000 and the 2002 \$3.4 million blowout of Liza Minnelli's (fourth) wedding to David Gest. (Both examples demonstrate that you cannot buy marital longevity.) Bar Mitzvahs have kept pace, albeit with less public attention. In 2005, British billionaire Philip Green reportedly spent \$7.4 million to jet 300 guests to the South of France for his son's 3 day Bar Mitzvah, which included performances by Andre Bocelli and Beyoncé.

A web search of wedding and Bar Mitzvah ideas quickly acquaints you with the potential scope of these events for the non-celebrities among us. Decorations, food, music, favors – all have a vast range of cost and elegance. Some weddings of our day seek to achieve a magical environment with champagne fountains, ice sculptures, flocks of ascending doves. One website invited readers to describe the

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## KaChing! continued

most extravagant Bar Mitzvah they had attended. In one, the Bat Mitzvah girl was carried into the party in a gold chariot pulled by a white horse. At another, guests stood in a booth, grabbing at money that blew around them.

Those features may not have been in the original plan. Frequently the hosts' initial budget is far surpassed as they succumb to the mind-blowing array of possibilities. Escalation also occurs because of the rule of large numbers. If you have already decided to spend \$25,000, another \$250-\$1,000 here and there seems of little consequence. Focused too narrowly on the project at hand, you can neglect to ask yourself: "What else might I do with this amount of money?" You forget that there is life beyond that single day or weekend. One Connecticut mother admitted that for her son's Bar Mitzvah, she got carried away by such niceties as caviar, 200 out of season Casablanca lilies and 150 Dupioni silk napkins. There's nothing inherently wrong with those things, but she went \$15,000 over her budget.

Many people finance events through credit card debt. It's even possible to fund either event through special loans. For weddings, there are [BridalLoan.com](http://BridalLoan.com) or even [creditloan.com](http://creditloan.com) which advertises "wedding loans for people with bad credit." Apparently our cultural attachments to romantic love and consumer excess have combined in the conviction that every girl must become a Cinderella bride.

Of course many families practice financial prudence and discipline in the process. Some parents offer an engaged couple an amount of cash equal to what they might have spent, in lieu of a reception. Couples who have delayed marriage and have lived together are more apt to finance their own celebrations.



In the case of the parent-funded weddings and Bar/Bat Mitzvahs, events may not be as lavish as the family could afford because the plans have been tempered by the family's values. Many rabbis and pastors caution against a level of extravagance that obscures the religious significance of the ritual. Some families, uncomfortable with what they view as wasteful or ostentatious lavishness, have reined in the size and scope, emphasizing their religious values instead. Rabbi Michael Sternfield of Chicago Sinai Congregation wrote in 2002: "Some (families) are showing great imagination and creativity in making Bar and Bat Mitzvahs authentically spiritual occasions. I see an increasing number of our families effectively connecting their celebrations to meaningful acts of tzedakah, of charity. In fact there is a wonderful little book which I recommend to all Bar and Bat Mitzvah families, which contains appropriate suggestions, entitled, appropriately: *Putting God on Your Guest List*, (by Rabbi Jeffrey Salkin)." Protestant author Martha Williamson, in a similar spirit, wrote [Inviting God to Your Wedding](#).

Some families, watching the stress levels attained where Bridezillas are unleashed, keep a wedding simple in order to retain sanity and joy in the process. Where people let everything ride on the success of the wedding, an event that is about family love and nurture can become a battlefield, rupturing relationships and balance sheets for years. In fact, "pre-wedding fights" is a concept recognized by many internet links that offer ways to avert this all too common occurrence.

Families are different. In seeking to set costs, families exhibit very disparate priorities. The weddings and Bar/Bat Mitzvahs that result reflect how a myriad of factors: cultural, psychological, relational and financial combine in a very personal way. It's not all about money.

Meanwhile, our families are in high spirits. Erin and Dave delight in their course on Biblical marriage with the pastor and his wife, and everyone is having fun in the planning. Benjamin can't get enough of his Hebrew lessons and enters the house joyfully singing the Blessings for the Torah.

Cost? Priceless!

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## WISPing to Protect Our Clients

It's the best kept secret of 2010. On March 1, Massachusetts Regulation 201 CMR 17.00 went into effect. It applies to ALL businesses (from EMC to your dogwalker) that handle "personal information" of Massachusetts residents which could allow for identity theft. Which businesses hold "personal information?" Most of them. Yet when we talk to others about their efforts to be compliant, many are just hearing about the law, at best.

Personal Information ("PI") is a person's name in combination with the number for any of the following: social security, driver's license, credit or debit card, financial account, or any PIN or password to a financial account. The new regulations require us to take steps to protect that information from internal security threats (within our office) and external threats to security (from cyberspace). To comply, we attended a seminar offered by Fletcher Tilton & Whipple, and then engaged an IT firm to both evaluate our readiness and implement necessary changes.

We're taking it seriously both because we want to protect the personal information of our clients, but also because the damages for a "breach of security" are extremely onerous. We created our Written Information Security Program ("WISP"). We have eliminated most hard copy documents containing PI by creating electronic copies, all of which are now encrypted. Now if we send out a document with PI by email, we will have to call the recipient with a password to open it, or send that password in a separate message. Our fax is electronic, so we no longer use fax for documents containing PI. We no longer will carry documents with PI when we visit clients. (what if we stopped for lunch and they were stolen from the car, or we left them in the restaurant?)

Also, our computers lock after 30 minutes of inactivity. Our office must be locked when neither of us is present, and no one may be in our office without us (including cleaners). Working documents with PI must be locked away when we leave our desks. Given that our office is in a locked wing of private home way out in the country, these measures probably are a bit of overkill. However, it feels good to be on top of this. You might ask any business which has PI of yours for their MA 201 CMR 17.00 statement of compliance. There's a chance that they won't know what you're talking about.



## Quarterly Economic and Financial Review

Even without help from the housing sector or from business investment, the U.S. economy continued to expand in the first quarter, after growing by +5.6% in the 4th quarter of 2009. Growth was propelled primarily by exports and by consumer spending despite continued high unemployment levels. Rebates and discounts, declining housing costs and the "wealth effect" of a year of strong stock market returns apparently encouraged consumer consumption. Corporate balance sheets were strong, motivating acquisitions and stock buybacks.

Stock prices continued to rise, bringing the rally into a second year. The S&P 500 Stock Index gained +4.9% during the period, recovering from its mid-quarter decline when investors became anxious about China's initial steps to reverse a fiscal stimulus program, by the potential for contagion from Greece's debt problems into core European economies, and by political conflict in Washington. Small cap stocks outperformed larger with value outpacing growth. U.S. merger and acquisition activity was strong. Emerging markets advanced at a similar pace. Developed markets lagged.

There was significant new issuance of corporate bonds in both the investment grade and high-yield sectors, bolstered by strong demand and the liquidity creation by the Fed. However, more available credit for small and medium-size businesses is still needed. Interest rates stayed low yet investors remain wary of an eventual rise.

Analysts are assessing the potential impact on the economy and the markets when the federal government removes its support of the credit markets. Already the Fed has begun phasing out of its \$1.25 trillion mortgage asset purchase program, as planned. While some analysts are hopeful, others are concerned that the slow recovery and the market rally will lose steam.

## Bernie, the SEC and Assabet Advisors

The SEC got a major black eye for their feeble oversight of Bernie Madoff's investment operation. Given that, you might assume that operating under the regulatory umbrella of the SEC is a picnic. Hardly. An SEC-registered RIA lives in constant dread of an audit: a visit by a pair of SEC analysts intent on finding holes in our compliance armor. SEC compliance is particularly onerous for a small-scale business which must submit to the same requirements as the large firms yet lacks a dedicated compliance staff. For that reason, Assabet Advisors subscribes to the compliance oversight services of MarketCounsel, a regulatory compliance consulting firm. For \$7,400 a year, this "advisor to advisors" makes sure that we are kept up to date on the mass of regulations to which we are subject as an SEC-registered investment advisor. They answer our questions. They help us with our annual ADV filing. However, they don't do the job for us.

The following (incomplete) list of compliance tasks that we handle is intended to bore you (feel our pain), make you laugh (parts of this really are silly given the size and simplicity of our operation) and to assure you that SEC oversight is serious business. We maintain an 188-page Compliance Manual that governs every move we make in the business and some that we haven't even thought of making. We can't accept recommendations on our LinkedIn sites, even for our work in prior businesses. We must be prepared to respond to a spontaneous SEC examination request to produce between 200-300 separate pieces of information. We regularly evaluate the mutual funds, brokers, and pricing services that we use. We maintain a lengthy Business Continuity Plan and test that periodically as well. We must review the Manual on a quarterly basis as well as our "restricted securities list," our client profiles, our Code of Ethics, and our many lists of clients, categorized in different ways. We must check the transaction detail report for every trade we make against the order ticket. We check employee trades – Wayne checks Lisa, Lisa checks Wayne. We maintain policies and procedures files (26 today and growing).

In addition to doing these tasks and more, we must document that we did them! Every review, test, evaluation, check, is documented with a special form and a signature. Sometimes Lisa, as Chief Compliance Officer, must sign a form to document that Wayne signed another form. Sometimes we must document what doesn't exist. We must keep a complaint file – it will be ready if we ever receive any complaints. We also regularly update our empty "disciplinary action" file.

Staying compliant is expensive, boring and often silly. We jump through these hoops because when the SEC announces a near imminent arrival, we won't have time to build a compliance infrastructure. We'll have to be more or less ready. We've learned that we are supposed to ask them for a government ID and a business card in order to demonstrate that we safeguard our clients' information. We know that we may offer them water or coffee, *only*. What would happen if Wayne slipped in a seltzer? We're not sure, and we don't plan to find out.

The truth is, we're scared of the SEC, but not because of anything we're doing that could be harmful to clients. We're scared because an agency that expects us to keep empty files and sign a form saying that the other person signed a form clearly means business. I attended an SEC meeting in Boston. Apparently *they're* allowed to offer more than coffee and water as there were some excellent pastries. The SEC attorneys presenting seemed like genial people. But the croissants and the smiles didn't fool me! We know from our peers and from the regulations themselves: these people can be brutal.

So how did they miss Madoff's giant scam? Bernie surely had a compliance staff that kept track of every regulation and "documented" flawlessly all day long. All of those compliance tasks that are such a challenge for us in our small business likely were easy for him. The difference is that he just happened to be a liar and a crook. Perhaps the focus on whether or not a firm double-signs the right forms distracts regulators from the possibility that the business may be an out-and-out fraud.

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