notes from the assabet Vol. XIII No. 3

Third Quarter, 2015

A Heart *for* Gold?

Hunger for gold has its place in fairy tales and in historical accounts dating back to ancient times. Gold has served as currency, a medium for gift giving and a way to display wealth. In all of these applications its value is *accorded* value, rather than intrinsic value. Perhaps the best example is the thin gold leaf that topped a sumptuous brownie at an elegant dinner party once described to me. Intended to be eaten as a part of the chocolate delicacy, the gold leaf had no nutritional value and added nothing to the taste. It displayed wealth, and a few other odd personal attributes.

The debate over the value of gold as an investment hinges on this issue of intrinsic worth. As a commodity or a currency, gold is extremely difficult to price. Some investors, known as "gold bugs" love gold. Other analysts and advisors scorn investment in gold. Its most notable detractor is Warren Buffet, quoted as saying[1]:

> "Gold, however, has two significant shortcomings, being neither of much use nor procreative. True, gold has some industrial and decorative utility, but the demand for these purposes is both limited and incapable of soaking up new production. Meanwhile, if you own one ounce of gold for an eternity, you will still own one ounce at its end."
>
> "Gold gets dug out of the ground in Africa, or someplace. Then we melt it down, dig another hole, bury it again and pay people to stand around guarding it. It has no utility. Anyone watching from Mars would be scratching their head."

Gold offers no dividends and no interest. Another critic summed it up by suggesting that gold is just a pet rock.[2]

Gold bugs are not alone in their relative disinterest in intrinsic value. Buffet, a value investor, buys stocks he expects to rise because he believes the companies represented currently are priced too low for their intrinsic value. He seeks fundamental reasons that the market price will rise such as demand strength, management expertise, and business financials. Market psychology is less a factor in value investing because it is external and does not relate to the innate worth of the company. However, psychology is quite interesting to a technical or even a momentum investor. These investors analyze patterns: price movements, trading volume, moving averages and other statistics, using assumptions as to what these predict for a stock price. They are more likely than Buffet to approve gold investing.

Gold investors may also employ patterns in judging the right time to buy and sell gold. For example, gold prices generally drop when interest rates exceed inflation by 2% or more. Gold prices tend to rise in areas of high savings rates when the economy is growing.

There are several ways to invest in gold: buying bullion or coins, mining stocks, exchange traded funds, or through the futures market. The hidden costs of owning physical gold include transaction fees, storage and insurance. Some gold bugs point to the liquidity value of gold in a period of catastrophic financial events in which the currency becomes worthless. Yet others point out that in such (rare) times people can't easily use gold for daily necessities. Instead they barter what goods and services they have for what they need.[3]

Mining stocks have some appeal when the cost of excavating gold has been lower overall than trading prices. However, you don't own gold itself but shares in companies which come with operating risk. Diversified gold ETFs are less expensive than physical gold and less volatile than levered futures, but they are vulnerable

Continued on page 2

Wayne Ushman

Robert Jacobsen

Assabet Advisors is an independent Massachusetts Registered Investment Adviser, seeking sound and customized investment solutions for high net worth individuals, businesses and foundations.

Focusing our business on larger portfolios, we are able to offer our clients highly flexible services and frequent communication.

We are among a limited group of fee-based advisors who are approved by Dimensional Fund Advisors for access to their funds.

4 Smith Road
Northborough, MA 01532
Tel: 508-351-9666
Fax: 508-351-9689
wushman@assabetadvisors.com
rjacobsen@@assabetadvisors.com

Gold continued

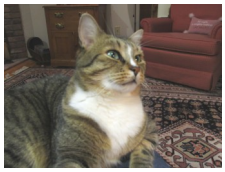
to shifts in both the stock market and in gold prices. Gold bugs tout gold as a hedge against inflation, yet since 1975 (when private ownership became once again legal) its average annual return has outperformed inflation but not stocks or bonds. Gold bugs consider gold a currency hedge as well. Opponents claim that it doesn't measure up to the claims for either inflation or currency hedging.[4]

Gold bugs claim that gold holds its value over the long-term. Scoffers agree, but point out that it's true only if you measure long-term in centuries, not decades.[5] (In other words, gold might be something you could leave your great -great-great-great-great-great-great grandchildren.)

From 2002 to 2011, gold's average annual return was 18.7%. It fell more than 39% between August of 2011 and July of this year. Gold's extreme volatility, along with the absence of ways to find its value or reliable means to predict its price patterns, makes it the ultimate in speculative investing. Some people, at some times, are fortunate enough to make money by speculating, but novice investors can be captivated by those who market the glitter. Jason Zweig writes: "Own gold if you feel you must, but admit honestly that you are relying on hope and imagination."

[1]J. Reeves, "Buffet on Gold," Marketwatch.com, 4/18/13. [2] J. Zweig,"Gold," The Intelligent Investor, Wall Street Journal, 7/17/15. [3] "4 Ways to Invest in Gold," Forbes.com, [4] M. Hulbert, "5 Reasons Not to Buy God," Barrons.com,2/7/13

Kitty Coverage



Jester didn't anticipate his teeth-cleaning. I didn't anticipate the size of the vet bill. Jester's pearly whites cost me ~$550. In earlier issues of this newsletter we've written about umbrella insurance and long-term care insurance. This time we're reviewing pet health insurance. So as not to keep you in suspense, pet insurance doesn't make sense for my situation and it may not suit yours.

To illustrate the analytical process: Nationwide's Medical Plan (their "economical" version) for a cat starts at $228 a year and covers injuries and illnesses (surgeries, x-rays, cancer, etc)[1]. That starting cost assumes a young cat and a high deductible. For my 9 year-old Glory, I'd pay $300 a year with a $500 deductible. Over 7000 items are included in the benefits list. The largest are for a kidney transplant (at $1145) and chemo, radiation and a pacemaker all at $1,000. Not one of those listed benefits is teeth cleaning. To get that, I'd have to pay another $264 a year for a Wellness Plan which covers annual exams, vaccinations and the like, and has a cap of $400 per year. I'll skip that. My cats' annual exam with vaccinations generally are less than $200 for each of them.

Unexpected major injury or illnesses are another matter. We need to estimate their risks and the potential costs. First, how likely is a major illness or injury for our pets? If you have a dog, realize that most of the winners of Nationwide's "Hambone Award" for unexpected pet mishaps are dogs, those wonderful goofy friends who eat your favorite socks (indoors) or a peck of acorns (outdoors). Depending upon their breed, pets may come with inherent physical weaknesses. Your dog may well have higher risks than my Jester and Glory who are American Shorthair cats, a sturdy breed, who don't go outside where they might encounter predators, cars, poisons or diseases. They're neutered, decreasing the over all cancer risk. And they're smarter than dogs.

What are the financial stakes? Feline kidney transplants can run $18,000-$25,000[2]. The $1145 benefit minus the $500 deductible (and premiums) wouldn't make a dent. The median survival following transplant is 1000 days, less than 3 years. The value of this admittedly far-out example is that it raises the question of your own ethical or quality-of-life perspective. Are you someone who would pay any cost to extend the life of your pet, despite the trauma of the medical care? In the treatment decision, how would you express your love, by an expensive medical response or by letting go? It's not a decision I've faced.

In several decades of cat guardianship (6 cats), I've never had an injury or illness bill of more than $700. I can imagine paying ~$5000 or so for a pacemaker or for surgery following an accident. A $1000 insurance benefit minus a $500 deductible and premium costs wouldn't help much so why would I bother with insurance? Your case may be different.

vetpetinsurance.com [2]M. Vitez, "Feline Kidney Transplant: Extravagance or Love?" Washingtontimes.com. 11/12/14

Assabet Advisors was one of the leading sponsors of the 5K roadrace in Northborough's Applefest weekend. Here's the team, including Robert and Lisa, Robert's wife, brother and friend, and Robert and Susanna's pooch who ran the entire race without the backing of pet health insurance.

See more on our Facebook page!

Economic and Financial Overview

It was a tumultuous quarter in the markets, particularly in the second half of August when the US domestic stock market had a 6 day losing streak amounting to -1900 points or ~11% on the Dow Jones Industrial Average (DJIA) before rebounding. Volatility was extreme. In a classic understatement, an associated press writer summed it up: "Well, that was exciting."[1]

The excitement occurred in the context of a long bull market marked by relatively low volatility. The correction was prompted by global concerns. Further declines in oil prices helped keep inflation below the 2% target set by the Federal Reserve Board, and were a drag on the economy. China, the world's second largest economy surprised us on August 11 by devaluing its currency amidst a steep stock market decline and a weakening economy. Some observers feared a currency war. Greece still labors under a debt crisis. Foreign markets exceeded US in volatility.

At their September 17 meeting, the Fed decided to defer any hike in interest rates. As factors in the decision, Chairperson Yellen emphasized global concerns including a threat of weak global economic growth (highlighting China and emerging markets), persistent low inflation and unstable markets. She expressed confidence in the state of the domestic economy which is in its seventh year of expansion. Labor market statistics are improving although wages are not showing the same progress. The unemployment rate is down to 5.1%. Auto and home sales have accelerated. Yellen as well as others on the Board, stressed the strong possibility of a modest hike in the remainder of 2015. Analysts are fairly unanimous in the opinion that because this long period of remarkably low rates, any hikes will be made gradually.

The U.S. stock market lost ground during the quarter (Q). The DJIA lost –6.98% during the period, ending at –6.95% for the year-to-date (YTD). The Standard & Poor's 500 Stock Index was down –6.44% for the quarter and –5.29% YTD. Foreign equity markets fared worse during the third quarter. The S&P Developed Global ex-U.S. dropped –10.2% for the quarter and –5.23% YTD. Emerging Markets (S&P Index) fell –18.69% Q and -15.60% YTD.

Fixed income returns were positive. The S&P Aggregate Bond Index was up +1% in the quarter. High Yield bonds were negative, consistent with losses in equity markets.

Financial Security and Victoria's Secret

In preparation for a trip to Italy, I've been reviewing tips related to money. I consulted the website of Rick Steves, host of PBS show "Rick Steves' Europe." Steves offers a wealth of valuable advice, with which you may or may not agree, but I've focused on 3 nuggets:

- Some merchants charge for converting their prices to US dollars before running your credit card, presenting this service, called Dynamic Currency Conversion (DCC) as a benefit to the foreign buyer. Steves warns that it will cost me. Apparently the merchant is likely to use a poor exchange rate to price in dollars. Additionally, the card issuer may exact its foreign transaction fee despite your dollar denominated payment. Steves advises that I refuse that "benefit" and ask that my purchase be transacted in Euros. If the receipt shows totals in both currencies, I'll circle Euros. If an ATM offers me a conversion, I'll choose "proceed without conversion" or will choose the Euro.
- Steves also favors cash for all but phone-order or large payments such as the hotel or car rental, or for payments made near the end of your trip, rather than replenishing your cash supply. He recommends getting the Euros once I land in Europe, for a better exchange rate. And because there may be a hefty fee for each cash withdrawal during my vacation, he says to withdraw a lot at once. (Santander charges $6 per withdrawal plus the exchange fee.) Of course Wayne doesn't hesitate to bargain with money exchange over the currency rate.
- Steves isn't worried about carrying too much cash because that and his essential documents (credit and ATM cards, and passport) are held safely in his money belt, worn *under* his shirt or pants,. "With a money belt, all your essential documents are on you as securely and thoughtlessly as your underwear. Have you ever thought about that? Every morning you put on your underpants. You don't even think about them all day long. And every night, when you undress, sure enough, there they are, exactly where you put them." I suppose that I can't beat that logic although I'd like to.

www.ricksteves.com.travel-tips

Not Your Grandmother's eBay

Boomers are moving into the age of Medicare and senior discounts. Along with the physical ailments, a new topic dominates their conversations: "How do I get rid of all this stuff?!" This comes with an awareness that downsizing to a smaller residence, or alternatively leaving all that "stuff" for the kids to handle are real possibilities. Yard sales or carting boxes of items to a favorite charity-run thrift shop offer solutions. What about eBay though? Getting a little cash for your stuff has appeal.

eBay began as a internet auction site where individuals listed items and sold them for the best bid. I became acquainted with eBay about 11 years ago when my son-in-law, then the college boyfriend, told me about his teenage ventures on eBay. At that point he was selling numerous things he had acquired through overstock distribution, but he had learned the ropes by selling discarded items from home. His first listed item was an old purse of his mother's which he put up with a starting price of $0.10.

In those days, eBay's auctions included a lot of used or even weird items. Legend has it that founder Pierre Omidyar knew he was onto something big when, in 1995, he listed, and sold (through the online market then called AuctionWeb): a *broken* laser pointer. So eBay became a sales site where even amateurs could sell whatever, and both sellers and buyers might be very pleased with their experience. Sellers found buyers and buyers found what they needed.

The terrain has shifted considerably since then. First, eBay is gargantuan. It's no longer simply an auction site but offers other sales formats, including fixed price. Selling on eBay is far more competitive than it used to be. Today, eBay's strategy involves competing with Amazon so the trend is towards corporate sellers unloading overstocked goods. The standard for descriptions and pictures is higher than in the past. Sellers now need more technical knowledge about the items they're listing, for better pricing and valuation. Many of the "weird" items of the early years are now precluded by rules. Participation is subject to greater regulation. There are even 14 different automated sniping services who place bids at the very end of an auction! In short, this is no longer a place for the Boomers to hop on and easily and gainfully dispose of their random old stuff.

There are many businesses, small and local as well as larger, that will sell your stuff on eBay. That might be an option for Boomers who have learned to pay others to do various jobs that they can't do themselves. However, these services are larger and less comfortable than you might imagine. With the challenges described above, it's not an easy business for the small-town entrepreneur. He also has to store items and deal with clients who 1) don't understand why a commission of 50% might be very reasonable 2) believe their stuff is worth more than it is, 3) have incorrectly described their items, and 4) want the seller to use his own eBay account, thus jeopardizing his eBay reputation.

Like eBay itself, the business of selling for others has become big business. You might find yourself dealing with an eBay "valet," someone selected by, but not employed by eBay, who receives your stuff and handles all the online setup, mailing and finances. Sounds good? That's a best case scenario. In 2013, Valets replaced eBay's Trading Assistants because of the latter's mishaps, but the Valets haven't done a whole lot better. Those who want to sell for others can purchase online consignment franchises. Through iSold It, for example, you can purchase an at-home franchise for a total of $46,000 ($12,500 for the business itself with $33,500 for planning and guidance). A storefront business franchise costs a total of $128,500.

Instead of a transaction between two individuals (or three in the case of a seller using a service) distribution chains can become extremely long. Many consignment sellers may work with "drop shippers," who mail the merchandise directly to the buyer. They never see or store the items.

How does the Boomer get the items to the seller? Some eBay Valets offer an official "drop-off site." Checking their location on eBay's website, I found none within 50 miles of either Boston or Chicago. In other words, they're rare. You may be best served by your small local seller. eeBart, an online consignment business in Boca Raton, advertises that they will accept drop-offs by appointment. Apparently that's how it's done. Likely there are some excellent local options, but with all the complexity and competition of a mature industry, it's not as simple as you might have believed. So, back to Plan A? Yard sales can be fun, or leave all that stuff for the kids clear out. After all, you did your part: accumulating it.

E. Woyke,"Why You Might Not Want to Ask eBay to Sell Your Stuff For You," Adventures in Consumer Technology, 12/19/14,A. Hsiao, "How eBay Selling Has Changed," "Myths About eBay That Need to be Busted" ebay.about.com, "How Are eBay v. Amazon Different?," Investopedia, 6/12/14,