notes from the assabet

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Bag Lady Syndrome

A fear of ending up sleeping in a cardboard box under a highway is common enough among women to merit its own label: Bag Lady Syndrome. Not limited to poor women, it also afflicts women such as Lily Tomlin, Gloria Steinem, and Katie Couric, all women with significant assets, earning power and apparent personal confidence.[1] What's with that?

We'll take as a given that in our own different ways, we all are a little funny about money. In fact, money has its own phobia: chrometophobia (also called chrematophobia) the fear of money. This phobia includes the fear of not being able to manage our money, and the fear that having money will bring evil and its consequences into our lives. (Think King Midas.)

Also, the fear of insufficient wealth can disturb not only the person for whom it may lead to homelessness, but also the person for whom it may have little real meaning. A recent article in Atlantic listed many ways in which having great wealth (the subjects of the study had over $25 million but averaged $73 million) can be a problem.[2] One of the more remarkable points of the piece is that the super-wealthy may be subject to the fear of not having enough money. One respondent who described himself as highly committed to his faith (one that teaches reliance on God rather than on worldly possessions), stated that he would not feel secure without at least one billion dollars!

If financial anxieties, particularly the fear of deficient assets, can afflict anyone, why do so many *women,* including those with high incomes and substantial assets fear poverty and homelessness? First, the demographics: Women are statistically more likely than men to live in poverty. Women earn less than men, live longer, have irregular patterns of labor force participation and tend to have less access to good pensions.[3]

Girls and women also are less exposed to finances, even to the subject of money, and often are excluded from financial management in marriage. No wonder that a recent study finds that women rate financial security and freedom as 15-20 times more important than the status and respect money can confer. Wives are likely to attribute marital arguments about money to issues of power and control while their husbands cite issues of trust.[4] (These go well together.)

Lack of exposure causes deficiencies in knowledge and confidence. In many situations, the problem is heightened by disparagement or verbal abuse by a husband suggesting that the woman is too stupid to grasp financial or investment concepts.[5] It's a form of bullying that keeps her cut off from current financial decisions, and unable to deal with them in the future. With a divorce rate close to 50% and the greater likelihood of

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[1] Johnson, "Top 10 Money Fears",www. Forbes. com 9/23/10 [2]Wood, "Secret Fears of the Super-Rich Atlantic 4/2011

[3 and 5] "Whence Bag Lady Syndrome?"www.funny-about-money.com,1/6/11. [4]Women,Money and Power Study, www.allianzlife. com, 8/22/2006

Lisa Phelps & Wayne Ushman

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

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Bag Lady Syndrome, continued

women becoming widowed than men, women without financial experience, knowledge and confidence are highly vulnerable, and they know it....thus the disturbing visions of shelters and shopping carts.

The results of Bag Lady Syndrome can be debilitating. Afraid of losing income, some women overwork, others become reluctant to negotiate for themselves in the workplace. Many women who handle their own investments can become overly cautious, limiting their potential gains. They don't make financial plans because they are nervous about what they might discover.[6]

To alleviate Bag Lady Syndrome, experts advise sufferers to "face your fear," rather than avoid the topic of money. By learning about money management and by becoming involved in financial decision-making, women without prior knowledge and experience can achieve a level of competence and stop fearing the unknown. They also can hire a financial or investment adviser (itself an act of management) and receive training and encouragement from that person. For some women, women's investment clubs could prove empowering.

Suze Orman suggests that a woman should counter her fears about money by setting a "new truth" to replace the voice in her head that speaks of stupidity and failure. By reciting a short, memorable and present-tense mantra, full of confidence and possibility, she can replace the fear and be motivated to become the master of her financial fate.[7]

So, don't pick out your underpass quite yet.

[6] Johnson, "Top 10 Money Fears,"www. Forbes. com 9/23/10 [7] S. Orman[7] "Creating New Truths About Money," www.womensmedia.com,

For Your Eyes Only

Do you keep a longterm diary or journal? If so, you certainly have had the experience of laughing at what you wrote many years ago. There are reasons that these volumes are private: they contain evidence of our naiveté, vanity and stupidity. Detailing not only what we did but also how we felt about it, they are an honest record of our progress and pitfalls.

We believe that active investors who trade in individual stocks or actively managed equity funds, and move in and out of the markets should keep an "investor's diary." Each time they select a certain stock or fund for purchase or sale, they should write down the action and the reasons for it. Whenever they determine that it's a good time to move from equities to cash, for example, they should record the deed and the rationale, documenting that they "knew" when markets were going to turn and which securities are going to make money (and when), even better than the market itself. They should detail how emotions of confidence, exuberance, fear or sentiment prompted decisions.

Without this record, active investors often have selective memory, recounting only those purchases that were winners, and noting only those times when their withdrawal from the stock market occurred shortly before a correction. They may forget that their reluctance to get back into the market kept them out of the post-correction rally. They don't recall how many times they held onto a "loser" only to see it slide further. They don't recognize how the amount of trading boosted capital gains taxes and trading costs. Without documentation of their investing logic, it becomes easy to ascribe to skill and foresight what may have been a speculator's dumb luck. Without calculating an overall longterm return, the investor can imagine greater success than actually occurred.

Aided by an investor's diary, they could perceive how much and how often markets don't behave as we expect, and how hard it is to beat the market, particularly with the higher costs of active management.

Weston Wellington of Dimensional Fund Advisors enjoys collecting the predictions of well-known money managers and investment pundits at the beginning of a year, and then comparing them to actual year-end results. Each year he documents innumerable examples of investment hubris.

If your "investor's diary" leads to some personal embarrassment, consider how fortunate you are that it's not being printed for public amusement.

Economic and Financial Review

Newsweek's cover headline on March 28 "Apocalypse Now?" probably struck a chord with many readers. With rapidly rising oil and food prices, geopolitical conflicts in the mideast, natural disasters and a nuclear crisis in Japan, and persistent concerns about European sovereign debt, there has been a sense of foreboding. Strong first quarter domestic equity market returns don't seem consistent with that picture.* U.S. large cap stocks returned nearly 6% for the period, with value stocks slightly outstripping growth. Domestic small-caps did even better, with growth issues at +9.2%, nearly 3 points ahead of small value stocks at +6.6%. International stocks were positive but fared less well, dragged down by the decline in Japanese stocks. U.S. equity markets did react negatively in the initial aftermath of the disaster in Japan. Yet the S&P 500 declined for only 3 trading days before starting to climb, presumably indicating the assumptions that Japan's problems were, at worst, localized and, at best, promoting economic growth in the long-term.

A majority of experts expect the stock market rally to survive the closing of the Fed's "QE2" stimulative policy of purchasing government bonds, scheduled for the end of the second quarter. They believe that the economy is strong enough to buoy stock prices and they note favorably the improvement in the jobs picture and the expansion of corporate profits, primarily from substantial cost-cutting. They also observe that investors' current distaste for bonds frees up assets for the equity markets.

Although the consensus is that the Fed will not act to raise rates at least during 2011, the uncertainty about rates as well as low yields make fixed income securities unpopular. If the Fed won't be buying Treasuries, who will? (Not Japanese investors who will be inclined to repatriate their investment dollars.) Municipal bonds rebounded from fourth quarter doldrums as analysts challenged fears of imminent multi-state defaults.

Our economy is growing. The GDP expanded at a +3.1% rate in the final quarter of 2010. Unemployment has shown continued improvement, dropping to 8.8% in March, its lowest level since March of 2009 and the 4th consecutive monthly decline. The jobs-lost number also was its lowest in 2 years. The employment picture has improved but is still not healthy. Both unemployment and underemployment remain historically high.

Retail sales were up in March and the leading domestic car manufacturers had strong sales. However, the housing sector's woes persisted as delinquent mortgages and foreclosures rose, putting pressure on home prices. The rate of inflation has risen, particularly for food and oil whose costs most impact consumers. With rising oil costs, both corporate profits and consumer spending may be constricted. The rise in consumer prices has outstripped growth in average hourly earnings. Consumer confidence sagged in March and is not likely to be buoyed by measures to reduce government debt.

*S&P 500 Stock Index: +5.9%, Russell 2000 Value Small-Cap Stocks: +6.6%, Russell 2000 Growth Small-Cap Stocks: +9.2%, MSCI EAFE (foreign stocks) +3.4%, MSCI Emerging markets index: +2.1%, Barclay's Capital U.S.Aggregate Bond Index: +6.5% ** H. Yousuf, "End of QE3?" CNNMoney.com, 4/4/11.

Update on "the Bond Guy"

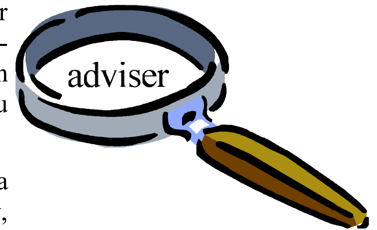
I witness daily the pain of the bond investor in this thankless environment. Unlike many investment advisers guiding individuals, Wayne prefers to invest in bonds directly rather than in bond funds. In any market milieu, it's a painstaking process to find, research and negotiate bond purchases. It's pure agony today when yields are low and likely to rise, and when municipal bonds must be approached with greater caution. Wayne can spend an entire morning fishing for an adequately secure bond that won't lock in an impossibly low rate for several years, and comes up empty. That's not a happy morning, particularly because the cash allocation of some portfolios remains higher than planned or desired.

Hoping to brighten his day, I called his attention to an article discussing Berkshire Hathaway's investment portfolio. Apparently the Oracle of Omaha has invested most of the fixed income allocation (some $38 billion) in Treasury Bills yielding close to zero percent, rather than taking greater risk by reaching for yield . Buffet has no magical strategy to get around the obstacles Wayne faces. Perhaps he understands, as Wayne does, that a fixed income allocation's principal purposes are to provide liquidity and to balance the risks related to equity investment. As Warren wrote in his 2010 Annual Letter, "Having loads of liquidity though, lets us sleep well. Moreover, during the episodes of financial chaos that occasionally erupt in our economy, we will be equipped both financially and emotionally to play offense while others scramble for survival."

Checking on an Adviser: ADV Part 2

Here's a switch: We applaud the newest compliance burden we shoulder as a Registered Investment Adviser ("RIA"). It's the revised format of the "Client Disclosure Statement," known more formally as ADV Part 2. You probably will too once you know more about it. Along with other RIAs, we'll be an open book!

We have provided all prospective clients with Part II of Form ADV (the form used to register an adviser with the SEC or state). Part I of the ADV, many pages of checked boxes, was available online. Part II, more checked boxes plus several pages if meaty information written in investment jargon and legalese, was not. If we ever sat down with you as a potential client, you received our "Client Disclosure Statement." Perhaps you even read it, more likely not.



On July 21, 2010, to provide greater access to information about RIAs, the SEC finalized a requirement proposed in 2000: the reincarnation of Part II into "Part 2," a reader-friendly, narrative-style Client Disclosure Statement. There are 18 disclosure topics, including the adviser's business practices, types of advisory services, fees and compensation, investment approach, and others, in a specific order. This allows you to put Part 2s from different advisers side-by-side for the purpose of comparison. The SEC mandated that Part 2 be written in "plain English," then published an 83 page report explaining what that is: active voice, short sentences and an absence of boilerplate and legal gibberish.

The result should be a disclosure that is meaningful, clear and useful to an investor with only a basic understanding of the investment business. Best of all, it's available on the SEC website: www.adviserinfo.sec.gov. Click on investment adviser search, choose "investment advisor," enter the adviser's name and indicate "contains." We will furnish our brochure to both potential and current clients, and it's available on our website www.assabetadvisors.com.

There also is a brief brochure covering any RIA employee who participates in offering advice to a client. It is not available through the SEC site. It discloses resume-like details such as age (!) education and work background, and also answers specific questions about the individual that might be interesting to a client. If you want to know if either of us has ever been found in violation of an investment advisor regulation, it's in there. You may be interested if we've ever been cited for discipline by the SEC, or ever declared bankruptcy. All in there. (And no, we haven't.) We welcome this transparency.

RIAs have known about this since July of last year. The instructions were clear and in plain English. So why may a third of all RIAs miss the March 31 deadline for compliance?[1] It was estimated that it would take 15-60 hours to complete it, depending upon the size and complexity of the business. Even at 60 hours, that's fewer than 7 hours a month from August through March. Compliance consulting firms could be hired to do it for $3,000 to $5,000.[2] (As a part of our contract with our consultant, we were required to let them do ours, with extensive mutual editing, for $3,000. We thought it was ironic to hire attorneys to write in "plain English," but the result wasn't so bad.) Template software has been available to purchase online for $99.00.[3] So what's the problem? Procrastination? Discomfort with disclosure? We don't know.

One caveat: it's great to have an "open book." But you can't find out all you need to know about an adviser in this new disclosure statement. You can't learn, for example, if they are people who will care personally about your welfare, or if their personalities will be a good fit for yours. Moreover, some "open books" are novels: pure fiction.

[1]D. Jamieson "A Third of Advisers May Blow Deadline," Investment News, 3/28/11, [2] B. Southall, "New Regulatory World Dawns with Oppressive ADV

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