



# What's New?

Feddern Financial Consulting Group Newsletter

**October 17, 2009**

## **KEYS TO THE BEGINNING OF A RECOVERY:**

- 1. The Real Estate market must stabilize. If not reversing, at least not continuing to fall. *NEW HOUSING STARTS UP this past Spring and Summer because of seasonal factors but inventory still huge! The Nationwide COMMERCIAL COLLAPSE IS JUST BEGINNING!***
- 2. Unemployment must stabilize. If not reversing, at least not continuing to rise. Last report was lower! *IT'S ACTUALLY WORSE as a "%," Back to near 10% - BUT IT CONTINUES TO MOUNT @ OVER 300,000+ weekly.***
- 3. Corporate Earnings (profits) must stabilize. If not reversing, at least not continuing to fall. *A FEW POSITIVE SIGNS but mainly in TECHNOLOGY.***
- 4. Banks must begin to make loans again (especially to small businesses and potential home owners...albeit under ancient premises of buyers being qualified and of all things, a down-payment! *Lots of "hoopla" from the mega banks, but it appears that there's no real progress. They're "hoarding" any cash they can get their hands on. And now here comes the Regional problems compounded by PRIME loan and Alt-A resets!***
- 5. The DOLLAR has to decline. *It's started for REAL!***
- 6. Auto sales must stabilize at some NEW level. *Maybe started!***
- 7. The consumer must get "back in the game of consumin'" *NO WAY!*  
**ANALYSIS OF THE ABOVE: No Real Hope YET! -10/17/2009****

## **The FOUR Most Dangerous Words**

For as long as I have been in the business, people have been repeating Sir John Templeton's statement:

The four most dangerous words in investing are "this time it's different."

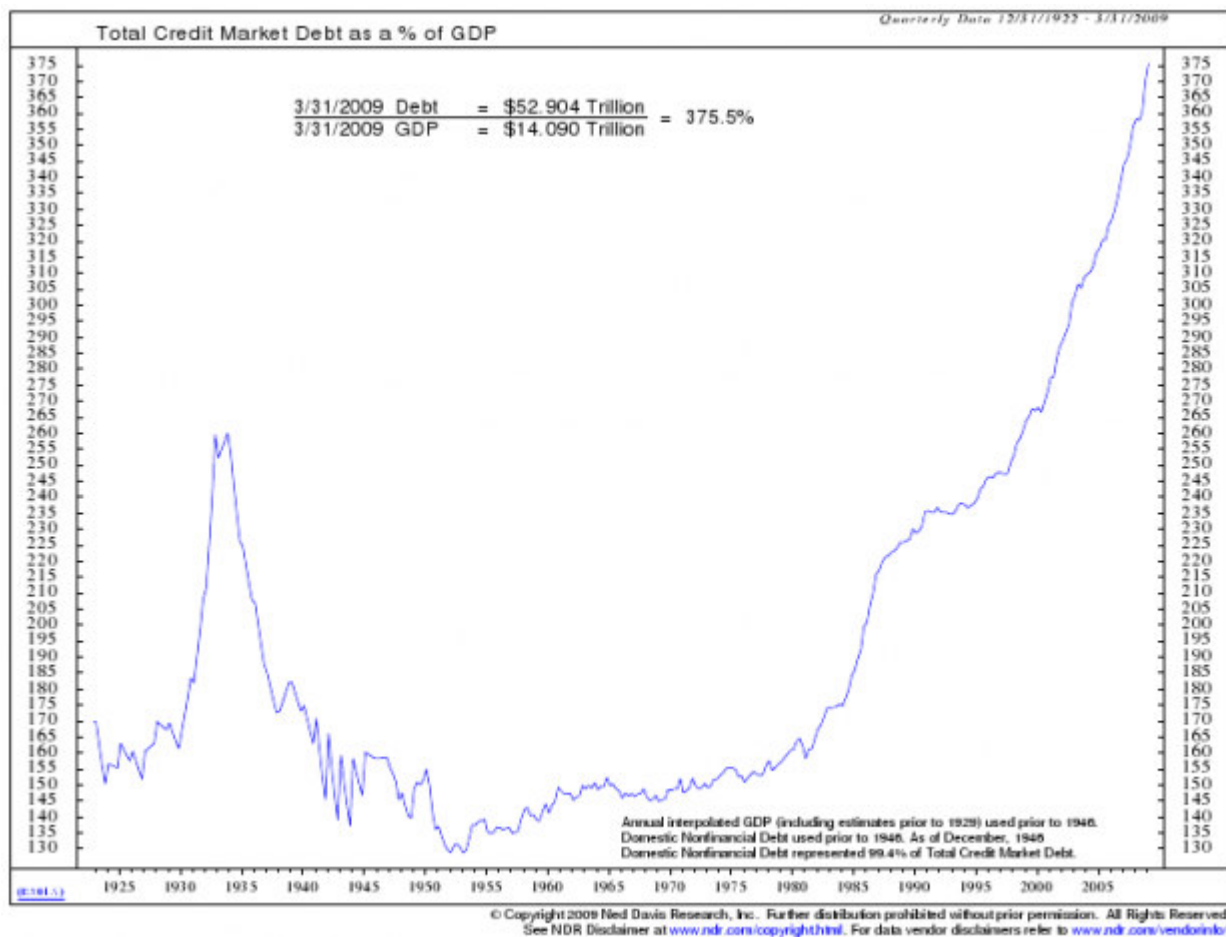
I think what he meant was that history is a powerful guide to the future. But I wonder if in the advice industry we sometime use it as an excuse for intellectual laziness.

It seems to us that if we are going to manage other people's money we have to think. We only have 82 years of real returns data and clearly not everything we will ever see is in the data. We are going to run into things that are different. Just Remember: The worst is always IN FRONT OF US NOT BEHIND US!!!

We have found that there is a subculture in the advice industry that dismisses any inquiry about the economy, the markets, or anything other than buying and holding, as speculation. As if repeating Templeton's quote removes the need to think critically about our profession.

I have recently asked questions about:

1. The fact that total debt to GDP is over 350% and that is 2x higher than it was in the 1920's (see chart):



2. Nassim Taleb's great books: The Black Swan and Fooled By Randomness.

**3. The work of Benoit Mandelbrot on risk (see this book, video, and this Morningstar Conversation): [book](#), [video](#), and the [Morningstar Conversation](#)**

We have asked these questions in a spirit of inquiry, hoping for a healthy conversation. Instead, some people dismiss the questions as foolishness without even considering them.

Really. Can we say that this time will be no different than the last time, if there has never been a time when we have faced this set of extreme circumstances? We have never, ever, seen debt to GDP at 350%; what does that mean?

What are we missing in this debate? Is it that good advisors realize that the things that get us into scary markets are different, but that we are sure that the outcome will always be the same so there is not need to think about it? Is it that it is out of our control, so why worry about it?

Or could it be that it is just the easy, convenient thing to do to cling to the this-time-is-no-different model? Are we really willing to bet other people's money on it without at least doing some basic research?

We're not saying that we should do something differently; although in our practice we definitely DO do something differently. And frankly we're fearless and dedicated to the "new paradigm" that keeps you from losing your nest-egg.

We just really think we owe it to ourselves and our clients to think about it. If your advisor doesn't, s/he needs to be replaced. Get away from them while the "gettin's good!

**- END**

**All of our past Newsletters are available on our Website at:**

**[www.fedderngroup.com](http://www.fedderngroup.com)**

We continue to receive more and more inquiries about our Down-side Risk Management disciplines along with our group of recommended money managers. We appreciate your "referrals." It's the main way we continue to build our business.

*Call us anytime: 502.442-0363 Direct 800/258-1502 Toll Free 502/442-0365 Fax 502/552-2049 Cell*

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