

# Current Observations

## Talent and Optimism By Paul Sutherland, CFP®

Recently I have been fortunate to have had a couple of remarkable and thought-provoking conversations. The first was with a friend from San Francisco who said that talent has more to do with a person's DNA than their training and education. Naturally a 225-pound 6'6" basketball center's skills are enhanced by strength and size, which is typically attributed to a DNA advantage. Consider, however, the artist, poet, mundane accountant, marketing professional, doctor or politician . . . how do we decipher their DNA to see the talent that might be obscured by environmental factors, their personality, social norms, training, education or experience? How do we categorize greatness? How do we even know how to identify greatness and separate it from luck?

The other conversation was one of those "bring it all together" chats that connected a lot of dots for me and brought me to an "a ha!" moment. The theme of the conversation was simply that, for entrepreneurs, status – and not money – is a motivator. As an investor I have always had a significant bias toward investing along with the owners of companies. In other words, I want to invest along with managers that have a painfully large part of their own net worth tied up in the company. In addition, I want them to have a feeling of responsibility to protect, grow and help their company strive ethically and sustainably, even if for the simple reason that their families' reputations would be sullied if they screwed up and enhanced if they succeeded.

### Virtue

What brings this all to this newsletter is simply "virtue of wealth." In October, I was interviewed on a national talk show about my latest book, *The Virtue of Wealth*. We discussed some of the books I've read in my teens, *Law of Success*, *Think and Grow Rich* and *The Richest Man in Babylon*. My host had also read those books, and we discussed the idea that success is a choice. Now keep in mind that "rich" is a word full of baggage. For some, all about money; for others, it is less about the money and more about a happy, fulfilling, meaningful and virtuous life.



“A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty.”

- Winston Churchill

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So that interview got me thinking. Even factoring in 2008's horrible performance, FIM Group has had a pretty good run over our 25 years. Was it luck or DNA? Naturally our new and prospective clients wrestle with that. What will the next 25 years bring? Thankfully, unlike the athlete who's athletic prowess decreases with age, investment management seems to get better with age – when it's done right. When I look at the sages in any industry they are never 29 or even 39 – they were graying before they were ripe enough to be considered sages. I am thinking of John Templeton, Warren Buffett, Charles Munger, Graham and Dodd, and others who just seemed to improve with age. They all seem to have a shared DNA that is characterized by success, passion, intellectual curiosity, intellectual honesty and a desire to see the truth of the situation. Most people, it seems, don't want the truth unless it suits their bias. And as we know in the investment business, the truth is very important, because of the sometimes unsavory characters this business attracts. One of my favorite quotes is, "Some minds remain open long enough for the truth not only to enter but to pass on through by way of a ready exit without pausing anywhere along the route." In other words, "*Don't bother me with the facts, because I have already made up my mind.*" In business – especially investing – to ascribe to anything other than the truth is irresponsible.

There is much written as of late about mutual funds, ETFs (exchange-traded funds) and indexing that is frustrating and falsely represents investment management. The allegedly truth-seeking managers or academics seem to basically look at nothing that does not support their hypotheses, which are:

- 1) Markets are efficient
- 2) Indexing works
- 3) You can't beat the market

If their premises are true – that investment management is not worth the effort – then why are they in the investment business? Shouldn't they

just leave and go sell shoes, and let us delusional investors keep being outliers as we "beat" the market (or not).

### **Talent and DNA**

Does talent exist? Is the investment process worth the effort? Are there great managers? Is Steve Jobs a great leader, or is he just lucky? Of course the core of this argument comes back to reputation, capital, intellectual honesty and the DNA issue. If you believe greatness exists, if you believe that talent exists, if you would rather have Tiger Woods as your golf partner than me, then you most likely are in the DNA and talent camp. If you believe that it is hard to identify talent, that excellence is more about luck than talent, training, DNA, passion and virtue, then accepting mediocrity and going the passive investment route is probably more your style.

So how does this relate to investing? At FIM Group we look for companies managed by passionate, ethical and talented people who have skin in the game. We want companies whose managers and board members have a significant part of their net worth invested alongside their shareholders. Naturally we can't be fanatics, because there are many well-managed, successful companies without significant insider or family ownership. However, in Asia and Europe we look for significant family ownership. Keep in mind that just because a family's reputation is on the hook it doesn't guarantee success. Ford Motor Company is a good example. Ford looks to be rising from the ashes; however, with billions of dollars of debt, the current management team has its hands full. I wonder what Henry Ford would think of what has become of his company that once was flush with billions in cash and now is mired in debt.

Examples of attributes we like are those of Apple, run by Steve Jobs. His reputation is tied to the company, and his 5.5 million shares of this \$200 stock make it more than apparent that he is motivated toward continued success. We don't currently purchase Apple (AAPL) for our portfolios, but if its price got to where

we felt it better reflected the competitive environment, we would not hesitate to own the stock. Today AAPL is a cult stock, and its price to its sales is nearly six times greater than Nokia, another great, well-managed technology company. Today, for various reasons, including valuation and price, we would rather own telephone companies like AT&T and leverage off Apple's successful iPhone.

### **S2/E2**

Another aspect we consider when evaluating management is ethics and an orientation toward the common good. Suzanne Stepan and I run companies through an informal "S2/E2" analysis (Sustainability, Society, Environment and Ethics). We know that not every company is perfect, and we believe that companies contribute to the economic and social development and should use resources prudently and effectively while creating shareholder value. The CAUX principals that help guide our ethical analysis basically assert that the world's business community should pay an important role in improving economic and social conditions.

### **Optimists Win**

I write a column for *Spirituality and Health* magazine, and my last column was about optimism. The column's catalyst was an issue of *Business Week* that discussed the power of optimism. (*Business Week* now has a website dedicated to optimism and the economic recovery.) We all know successful people; they are optimistic, they strive, they look at setbacks as opportunities, they play to their strengths and usually, humbly or not, they have a desire to overcome their weaknesses for success. So what I think brings success to a company or any organization is, of course, all of the attributes we discussed above. Talent, training, DNA and virtue are needed – but they need one additional element: optimism. The virtues discussed (and some not discussed, like "leadership") are all great, but to create anything lasting they need to be energized with an "I can/we can" optimism. Just reference Winston Churchill about the importance of optimism.

If you are a FIM Group client and would like a complimentary copy of Paul's column that appeared in *Spirituality and Health* magazine, simply give us a call, and we will mail you a copy. Paul was also interviewed recently by *GreenMoney Journal*, and much of the interview was about S2/E2 investing. There is a link to the *Journal's* article and also to the Caux Round Table website at [www.fimg.net](http://www.fimg.net).

# It's Always Something

By Suzanne Suzannadanna (a.k.a. Suzanne Stepan, CFA®)

One of my all-time favorite comedienne is Gilda Radner who appeared in the late 1970s on NBC's *Saturday Night Live*. I especially love her extremely hysterical character, Roseanne Roseannadanna, who periodically gave editorial replies to current issues on the show's Weekend Update segment. *In the article below, I provide a tribute to a special gal who always put a smile on my face. And while I do not look much like Gilda, we both shared a common belief on style, basing "most of our fashion taste on 'what doesn't itch.'"*

Hello, and good whatever the time of day it is that you might be reading this. Welcome to the November issue of *Current Observations*. Here now is the top story:

I'm Suzanne Suzannadanna, and a Mr. Harvey Skooner from Manalee, New Jersey, sent me this holiday limerick that says:

**Dear Suzanne Suzannadanna,**

**This holiday is depressing for me.  
I gotta stay home in Man-lee.  
My cash is low,  
My business is slow.  
'Cause I don't understand those  
economists, you see.**

Well, Mr. Skooner, I don't know you, but I know exactly what you're goin' through 'cause this weekend, I, Suzanne Suzannadanna, was just complaining. Yes, it's true. My head was a sayin' but my lips were not a movin', I'm depressed, I gained weight, my face broke out, I'm nauseous, I'm constipated, my feet swelled, my gums are bleedin', my sinuses are clogged, I got heartburn, I'm cranky and I'm worried I might have the swine flu! While I don't mean to make a you sick with my disgusting innuendos, Mr. Harvey Skooner from New Jersey, my two cents on your cash dilemma (full pun intended) is you need an understanding of slumps, bumps and downturns.

Those fancy-schmancy perceived ivy-leaguers like Alan Greenspan, Ben Bernanke, Bill Gross, Larry Kudlow, and I can go on and on, have big words like "recession" and "depression" to describe those economic smacks. While I, Suzanne Suzannadanna, am neither weakened nor wasted by the infirmities of old age, there

is an old economist joke about those big words, and it goes something like this: A recession is when your neighbor loses his job, and a depression is when you lose your job. SERIOUSLY, who in their right mind would call this a joke? Is anyone laughin'? Economists! I'm with you Harvey, o-nay omprend-cay. Little hint: it's Pig Latin for "I don't get it either."

So, are you listenin' to me, Mr. Harvey Skooner? The difference between depression and recession is not well-understood by many, because the economists think it's some sort of a joke. Ha ha economists, nobody is laughin' at your joke. Honestly Skooner, there is no worldwide agreement on the definition of these words. Now if I, Suzanne Suzannadanna, asked 100 of those droll

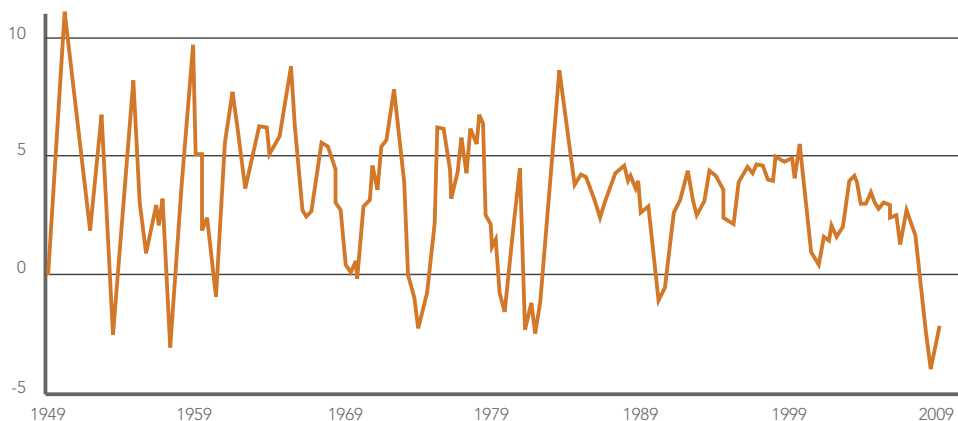
economists to define both recession and depression, I, Suzanne Suzannadanna, would get not a one, not a two, not a even a 52 . . . I would get a 100 different answers. Ugh!

As my sweet Bubby used to say, "Like milk and honey, let's make it nice and easy." Moons before the 1930s Great Depression, any fall in money-making activity was considered depressing, so the economists termed the expression "depression." Then, in order to get fancy and to differentiate excessive downturns from relatively eensy-weensy downturns like those that occurred in 1910 and 1913, the term "recession" was coined. Simply, a depression is a recession that has a longer duration and a much broader negative effect on financial activities.



## Quarterly YOY% Change in GDP

January 31, 1949 - September 30, 2009



SOURCE : 2009 BLOOMBERG FINANCE L.P.

Bloomberg is a very reliable source for providing data, however, data back to the 1900s was unavailable. The chart above shows the lowest quarterly drop in GDP at -3.8% since December 31, 1948, on June 30, 2009.

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Society has heard the word recession a lot these days. The not-so milk and honey definition is when the gross national product (GNP) declines for two consecutive quarters. GNP is the total market value of all the goods and services produced by a country's residents no matter where they live in the world during a given period of time. Technically, when the U.S. economy is shrinking and producing fewer goods and services, that is when we are in a recession.

A depression hits once the real Gross Domestic Product (GDP) shrivels by more than 10 percent. GDP is the total market value of all the goods and services produced within the boundaries of a country. So, if you, Mr. Harvey Skooner (assuming you are a U.S. citizen), can make some cash from some overseas investments, that cash would be included in GNP but would not be included in GDP. And the value of the goods produced by the foreign-owned business on U.S. land by a fictitious Mahoode Shiradadod

from a fictitious Indocamisia would be included in the GDP calculation, but not the GNP. Just remember this, Harvey, when you are cryin', it's a big deal, and you are in a depression. When you feel bad and your nose sort of snuffles but your eyes don't tear, then you are in a recession.

So, in 2009, it appears as though we have an extended case of the snuffles, and we are in a recession.

There is some encouraging news about recessions, Harvey Skooner. In recent years, the U.S. government has done a better job of managing recessions, so they have less of an impact on the average American and are over sooner. For example, according to the National Bureau of Economic Research, the six recessions that took place throughout 1919-1945 lasted 18 months on average, compared to the 10-month average since 1945. In addition, inflation tends to be lower during recessions, so the cost of all the things we buy doesn't increase drastically.

My advice to you, Harvey, is to find your happy place for the holidays. And if it's not one thing, then it's another. It just goes to show ya, it's always something. All fun aside, at FIM Group we do understand investing during diverse economic cycles. During a recession people tend to put their dollars toward necessities such as food and utilities, so it is important to have holdings that are resilient. In addition, it is important to look at a company's advertising. Find companies that have cash to advertise and understand how those advertising dollars are being spent? Companies that can afford to advertise will win consumers, and this helps their resilience. During a recession we need to maintain the "price always matters" philosophy, do our homework and not overpay for securities. In an economic slowdown earnings might decelerate or even become non-existent for many companies. We look for promising cash-healthy companies and are always patient with our prices paid.

Good day and have a pleasant tomorrow.

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