

# Michigan Client Seminars

The seminars we conducted in the spring were well-received by many of you and your friends. Based upon the feedback from the roundtables we have decided to hold additional seminars over the next several weeks.

We hope that you will be able to join us for one or all of these sessions. We encourage you to bring relatives and friends who also may be interested in attending.

## INFLATION PROOFING YOUR PORTFOLIO

With the national debt rising and reports of the dollar losing value, inflation seems inevitable. This seminar will discuss how FIM Group is anticipating inflation and protecting your portfolio for long-term sustainable growth.

**Monday, October 12, 4:00 PM**  
**Monday, October 19, 5:30 PM**

## INVESTING BASICS BACK BY POPULAR DEMAND

This seminar will focus on reviewing the basic principles of investing, along with demonstrating the legacy of great investors. We also will discuss the current economic and political landscapes and how the ever-changing climate affects investing and your portfolio.

**Wednesday, October 14, 5:30 PM**

## WHAT DO I OWN IN MY PORTFOLIO AND WHY? BACK BY POPULAR DEMAND

By far our most popular session, this seminar will review specific FIM Group investments from actual client portfolios and explain in detail why we hold each position.

*If you attended the last one, don't worry because we will be covering new holdings.*

**Tuesday, October 13, 2:00 PM**  
**Thursday, October 22, 5:30 PM**

SPACE IS LIMITED. TO RESERVE YOUR SEAT PLEASE CALL 231.929.4500 OR EMAIL [INFO@FIMG.NET](mailto:INFO@FIMG.NET)

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Performance data quoted represents past performance. Past performance does not guarantee future results. All performance assumes reinvestment of dividends and capital gains. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Performance data current to the most recent month-end may be obtained by calling 231.929.4500.

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# Current Observations



## Talking Politics By Paul Sutherland, CFP®

Let's look forward. Let's get out of the way of the past for awhile and stand in the future. I am finally weary from evaluating the last 12 months and even more tired of talking about it. I am worried that we can get caught up in a continuing circle of reliving last year's economic meltdown and not focusing on moving forward, but it seems to be hard in today's political world. So let's get political.

Here we are in the fall of 2009, with a Democratic president, Democratic Congress and a federal government that has deliberately kept interest rates low to encourage borrowing. With all of the "bailout" decisions we are a contributing factor to a declining U.S. dollar, we have citizens screaming and yelling at town hall meetings and we have our ongoing issues of war, deficit, unemployment, terrorism, taxes, potential inflation, deflation, recession and depression. As I explained in the last newsletter, we seem to be in a "Just say yes" political climate.

### My President

I should be apolitical in my writing so I don't offend our clients. More important, I need to think clearly and not let my dogma lead me off track. I will say, however, that I lean toward a more libertarian form of democracy that is full of virtuous citizens – which really tells those reading this essay very little, because my realistic, practical side wins every contest. I am an old-school thinker and believe that, regardless of the team I voted for, the president deserves my support. He is commander in chief, our appointed leader. It is not helpful to vilify our president, even if I am a Republican or Democrat. It is American to talk about weaknesses in a platform, policy or legislation – but to draw horns on our president's character is not helpful. Today, the debates about health care, unemployment, wars, global warming, creation care (environmental issues) and even personal lifestyle issues seem to have taken

"What are you looking for?" asked the well-dressed man sitting on a park bench to the bird. "I am looking for a worm," said the bird. "Well," said the man, "I will trade you a worm for one of your fine feathers." The bird agreed. This went on for a number of days, when one day the bird went to fly and wasn't able because it had given away one too many feathers.

continued from page 1

on the tone I have seen only when being evangelized by someone who believes that those who don't share the same viewpoint are evil.

Democracies are rough and tumble. They are messy (they don't need to be rude), inefficient and cumbersome. But, in my opinion, democracy is the only system consistent with human nature. However, I have chatted with communists in China, and they think our form of government is too idealistic and impractical.

### Can't Spend or Tax Our Way to Prosperity

Even though I said this letter was not about the past, the chart below shows the actual numbers regarding which party seems to be better for the markets, economy and inflation. President Obama has continued on with President Bush's policy to just throw money at problems. President Bush threw our money under a "spend and spend more" policy, and President Obama, along with Congress, seems to be throwing it everywhere their predecessors did, and in good political form a few new places, too. All those trillions of dollars, combined with low

interest rates, need to go somewhere, and just like they did in the past they will cause rising prices and rising production. The fact is, and history confirms, that if the U.S. stays the course and continues to irrationally tax and spend, then inflation is the inevitable outcome.

The problem with taxing the top 1% of earners who already pay 40.5% of income taxes is that it could send them away. There are many beautiful places where rich Americans could potentially move to lower their tax rates. Australia, Canada, Greece, Hong Kong, Singapore, Switzerland, India, British Virgin Islands and even France all have tax codes that could potentially save millions for wealthy Americans willing to swap passports. Just like the story of "The bird, the worm and the man," which my minister once told to illustrate how our character can be eroded, it also can illustrate the issues when a country's wealthiest decide to take flight because they just can't give one more feather.

The key, then, is to grow the taxpayer group that does not fall in the top 1% of earners. We tend to label them "middle class." They are the professionals, entrepreneurs, craftsmen, managers and builders who make a decent living,

educate their kids in their trade or a new one, support their schools and their communities, vote, and work hard. I think President Obama would coin them "the responsible Americans" if he could, but he can't for fear of offending those who wish to say they are victims who the system failed.

I do believe that even those who resent the wealthy of our society would agree that we can't have a healthy economy built on getting 40.5% of our income from 1% of our citizens. We also can't use the wealthy as a metric for measuring success, because the solution lies in growing our economy from the grassroots of the middle class, while discouraging the "victim class" from thinking that it is acceptable to live off welfare, collect unemployment and sustain themselves through government assistance. When I was younger, one of my teachers said, "In a democracy we have no freedoms, only responsibilities." So I like it every time President Obama says the word "responsibility."

How will we get there? And where is "there"? I think it is where we have balanced budgets and people feeling that they are part of the political process, where we all feel like we should pick up a piece of trash in our park or on the

## Some Tips on TIPS

By Jim Frye



In last month's *Current Observations* newsletter, Paul focused on what the economic future is expected to hold and discussed specific investment strategies FIM Group has employed in response to his projections. One conclusion that we're fairly certain about is that inflation is a very real threat as we carry unprecedented deficits in the U.S. In addition to investing in companies in industries that should benefit from inflation, you may have noticed an increase in U.S. Treasury Inflation-Protected Securities (or similar holdings) in your portfolio. While they have been around for more than a decade, the mechanics of TIPS are often not well-understood. This article is an attempt to take the mystery out of this important inflation-fighting investment vehicle.

One of the easiest ways to avoid losing the race against inflation is to own investments that are designed to automatically keep pace with inflation, generally referred to as "inflation-protected securities." Introduced by the U.S. Treasury in 1997, Treasury Inflation-Protected Securities, or TIPS, have become the most widely known example.

Where TIPS differ is with their inflation-adjustment feature. Twice a year, the principal amount of the bond is changed based on the Consumer Price Index (CPI). It can go up or down. The interest rate does not change, but since the rate is applied to the adjusted principal, interest payments can vary from one period to the next. As a result, if inflation occurs, the interest payment will increase; in the event of deflation, the interest payment will decrease. The price of TIPS will fluctuate daily based on the pure bond component of the asset and the accreted inflation factor, which is based on the difference between the current CPI and the CPI at issuance. TIPS will pay a lower interest rate than comparable Treasury securities that don't adjust for inflation, since their principal is automatically adjusted based on increases or decreases in the CPI.

Here is an example of how this works. Let's assume \$10,000 in TIPS were purchased that pay a fixed rate of interest of 2%. Over the next six months the CPI (inflation) increases at an annual rate of 3%. The principal amount would be adjusted up by 1.5% (half of the 3% annual inflation rate)

to \$10,150. This is the amount that the 2% fixed rate of interest is applied to resulting in a coupon payment of \$101.50 for the six-month period, compared to \$100 in the prior period.

Upon the TIPS maturity you receive the greater of the inflation-adjusted principal amount or the original principal. This feature protects the original investment in the event of deflation.

Since TIPS pay a lower fixed-interest rate than equivalent non-inflation-adjusted Treasury bonds, the advantage to owning TIPS is only realized if the rate of inflation over time is greater than the difference in the interest rates paid. For example, if the TIPS pay interest of 2% and an equivalent non-inflation-adjusted Treasury bond pays 4.5%, the inflation rate will need to be greater than 2.5% for a TIPS advantage.

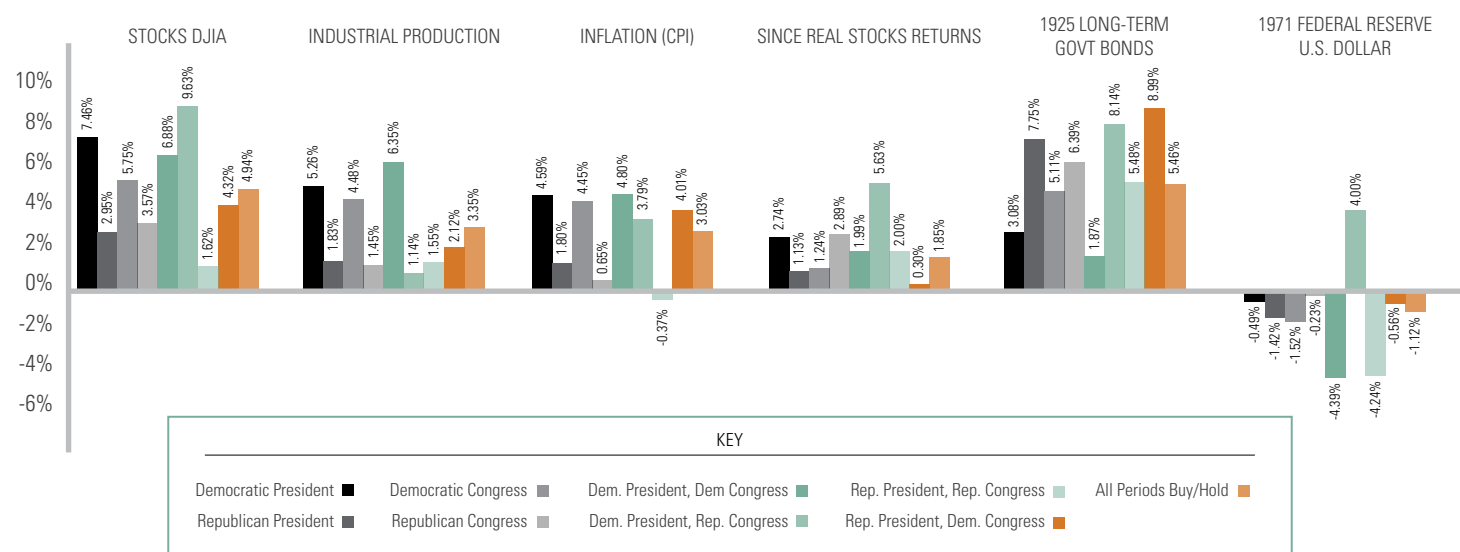
From a tax perspective it is usually preferable to hold TIPS in tax-deferred accounts such as IRAs. That's because if the principal of your TIPS grows in a given year, that growth will be taxed as income for the year even though you don't receive that money until the TIPS mature.

With the strong likelihood of having to face an inflationary period in the months ahead, the use of TIPS as part of an overall FIM Group investment strategy is a safe approach to mitigating its potentially debilitating effects.

TIPS are identical to non-inflation-adjusted Treasury bonds in many ways and share the following features with regular Treasury bonds:

- Issued in terms of five, 10 and 20 years
- Interest is paid every six months
- Interest rate is a fixed rate determined at auction
- May be held to maturity or sold in the secondary market before maturity

GAINS FOR STOCKS, INDUSTRIAL PRODUCTION, INFLATION, BONDS & U.S. DOLLAR BY PARTY OF PRESIDENT AND MAJORITY OF PARTY IN CONGRESS



Note: It could be argued that it can take four years or longer for policy changes to affect economic cycles. Source: Ned Davis Research, Inc.

continued from page 2

street, and where pride and responsibility are balanced. After the floods in New Orleans I heard a news interview where a man in an unemployment line was asked why he was there and not in line at a fast food chain that was offering bonuses just to get workers. He replied, "I ain't flipping no hamburgers." I know we have gone too far in entrenching an entitled welfare class, which is not helpful in any economy. The rich and those blessed with a job and security, however, must not feel entitled either. From Luke 12:48 there is a statement that says, "to whom much is given, much is expected." Governments cannot create income or wealth it is left up to us as individuals to make our own way.

### So Much Room for Optimism

We have deep structural problems in America; our system has worked for

some and not for others. But it is still unclear how we will create jobs and get the economy going. We have allowed Americans to feel entitled. Entitled to not work for a day's wage, entitled to stay home and receive sustenance from welfare. We have taken the spirit from some of our citizens. We have grown a giant military industrial complex that is wasteful and expensive and seems to answer to no one in our country. We have overspent and been wasteful through laziness, apathy, ignorance and good intentions.

What we are seeing now in America's political process is acknowledgment of the issues. The process to fix the issues is what ails us. We are continuously slowed down by special interests, politics, differences of opinions and the fact that we think government needs to solve the problem. We will have trouble agreeing on what the problems are. We will also have trouble agreeing that we should do something about the problems. Some believe the brother-in-law who has a problem with

drugs and alcohol should be ignored – others think the family should act to help him. In America, we have some who think that simply admitting we have a problem is "un-American."

Regardless of the issues I am still optimistic. As a country we have lots of feathers, we will be wiser in their use, and history shows we solve our problems. We are one of the richest, prosperous countries, and we are blessed to have these types of problems. I can think of few countries I would want to swap problems with. Many of us get to worry about taxes and inflation rather than where our next meal will come from or where we will sleep tonight. Thanksgiving season will soon be upon us. It is truly a unique American holiday that makes me proud to be an American. It is a holiday where we can be grateful and give thanks . . . now *that* is a reason for optimism.

continued from page 3

and real estate prices to fall. That is until March 9, 2009. Why prices stopped falling after March 9, is not entirely clear, but it seems to me that security prices simply became compellingly low, or rather, cheap. The result: markedly low-priced stocks lured in buyers who realized a lot of money could be made from this fear-driven selling extravaganza.

Despite having recovered in excess of 50%, equity prices are still off from previous high prices. Many wise long-term investors have taken advantage of this situation. Investment "vultures" bought equities at bargain prices from scared shareholders who just wanted out of the market. Politicians seized the day to pass goliath-type legislation to increase their powers, and the media, especially the sensationalists, expanded

their audience. No doubt many have been hurt because of the global recession and fall in security prices, but arguably the damage was self-inflicted because of sellers' inability to emotionally contend with the perception of dire economic circumstances. We can't repair this reality, but we can learn from it and contemplate our reaction in the future when times are tough.

## I WILL ADMIT TO BEING A TOTAL OPTIMIST. THIS BEING THE CASE, I FEEL COMPELLED TO POINT OUT SOME POSITIVES:

Many on this earth who have never flushed a toilet, turned a faucet to draw a glass of clean drinking water or bought a head of lettuce at the grocer will soon be able to.

Americans will become financially stronger, learning from recent events, and will save more and pay off debt faster.

Batteries aided by solar collection devices will be able to store energy to significantly reduce reliance on carbon-based fuels.

The mineral and human capital-rich continent of Africa will emerge and contribute to the global economy in diverse ways.

These actions along with medical advances will create capital, thereby improving society, increasing economic activity, raising global living standards, increasing life expectancies and increasing security prices in the long term. The path will not be linear, but it will trend upward.

A successful life is not about how few problems we have, but how to solve them. I believe we will uncover many solutions in the next decade, and these solutions will create amazing financial opportunity – opportunities I truly look forward to participating in.

## A Quick Look Back and a Look Forward

By Jeff Lokken, ChFC®



The past 12 months have been, to say the least, trying for investors. The government-sponsored mortgage organizations of Freddie Mac and Fannie Mae collapsed, wiping out both common and preferred stock shareholders. Under the weight of counter-party risk, many brokerage firms teetered on the edge of financial ruin, and Lehman Brothers went under. Almost 100 banks have failed and have been restructured by the FDIC in 2009. Last fall the President, secretary of Treasury and Federal Reserve chairman frequently employed words like "collapse," "destruction" and "disaster" to describe the state of the financial markets. Brokerage firms were quickly

knighted as banks, who then received "bailout" funds from the government to prevent the total failure of the financial system. The Primary Reserve money market fund "broke the buck," pricing at 97 cents. Congress wrangled for potential solutions, financial firms fought to survive and shocked consumers simply stopped spending.

Consequently, the velocity of money slowed rapidly, resulting in the precipitous drop in stock and real estate prices. The global recession was in full bloom.

Media outlets sank their teeth into the crushed market as their biggest news story, attracting readers, viewers and

listeners with constant financial reports. News stories were grim, wrought with doom and gloom, and the more negative the stories became, the more attention they received . . . and the more hand-wringing fear they produced.

Investors demanded answers about the future of the market, but as always, there were no absolute answers, and so sellers outnumbered buyers, forcing security