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From George's Desk… *(continued from page 1)*

Never before in the history of mankind has one half of the world's population had the expectation of dramatically improving their lifestyle and economic prosperity. I have experience in Third World countries where most of the people do not have enough food, to say nothing of nourishing food, a real bed to sleep on (generally piles of rags or blankets), a refrigerator, or a bicycle, let alone an automobile or any of the other things we take for granted. Developments in Third World countries are creating the most significant consumerism boom in history.
I believe the growth of these economies is so enormous that it will drive economic growth worldwide. Recently, I saw a list of ten of the largest companies in the United States and all but one derived more than half of its business from overseas.

We Americans have faced many challenges and have not only come through them successfully, but have continued to prosper. I am confident we will continue to do so in the future as well.

Summer 2010

BATES Briefings

from George's Desk

In preparing my speech for Client Appreciation Day, I did a significant amount of reading and research covering the financial history in the 1930s, the history of Medicare, the current economic outlook, and the future of the stock and bond market, unemployment, interest rates, inflation, and the value of the dollar. To say it was illuminating is an understatement.

Let me comment briefly on what I learned and my opinion on each of those subjects. As all of us know, the 1930s was the Great Depression era, with high unemployment that lasted until World War II broke out, low interest rates, a national debt that started low (3% of GDP) and rose to 40% of GDP (GDP stands for gross domestic product ---which is the total of all business in the country) by 1932 and to 128% of GDP at the height of the war.

During that decade, many new programs were started by the federal government, among them Social Security and the creation of the Securities and Exchange Commission (SEC). Unfortunately, most of the programs did not work in reducing unemployment to an acceptable level, though the economy began to improve.

The stock market experienced a tremendous recovery beginning in 1932 and continuing until early 1937 when the government raised taxes and the market took another dive.

It then took until 1943 before the market recovered to its 1929 high, assuming you reinvested the dividends during that whole period.

Another important subject that I looked at was Medicare. When it was passed into law in 1965 the cost the first year was $3 billion and was projected to cost $12 billion by 1990. The fact is by 1990 it cost $107 billion and by 2009 it cost over $400 billion. It has been stated by people who are in a position to know, that the current unfunded liability of Medicare is $36-38 trillion. That means unless something big occurs (doubling the payroll Medicare tax, and/or dramatically reducing the benefits), Medicare will bankrupt this country. That projection was determined before the passage of the new health care legislation. You can judge the reliability of the federal government's projections on revenue, expenses and deficits.

Yet another subject that I looked at was the government's debt level which is projected to be 80 -100% of GDP through 2018. That is more than double the level for the whole decade of the 1930s and does not include the unfunded liabilities of Social Security and Medicare, which combined is currently estimated at about $50 trillion (which didn't exist in the 1930s).

Before you jump off the bridge, let me point out some positive information. *(continued on page 4)*

A special thanks to all of you for your support over the last several months. I have completed my treatments, and I am back in the office and feeling better each day.

– Barbara O'Neill

What Is With The Stock Market ?

Considering the volatility of the stock market as of this writing, I think some recent quotes that I have read should help put things in perspective.

Sir John Templeton, the founder of the very successful Templeton Funds, once said, "Bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria." Chris Davis of Davis Select Advisors recently remarked, "The stock market will turn positive before the economy does and if you're waiting for evidence of things getting better, you'll miss it."

There have been a number of surveys done comparing the average performance of a group of stock funds where over 10 to 20 years the funds averaged 10 to 12% but the average investor in those funds realized only 2 to 3%. You ask, "Why?" It is because many people panic when the market is down and get out, and after a period of very good times they swallow their fears and get back in, only to see them go down again. In other words, they buy high and sell low, which of course is not a recommended road to successful investing.

Another example is that unprecedented amounts of money are going into bond funds now at what many financially savvy people believe to be at the tail-end of a 25 year bull market in bonds. After all, interest rates are at a 40-year low and prices of bonds are at a 20-year high.

One more thing to consider when you are unhappy that one or more of your mutual funds has not done well in the last year or two: A recent report stated comparatively that "80% of the funds with the best track records spent at least 3 years out of 10 in the bottom quartile." I have often said diversification is key to successful investment results; I probably should add patience to that advice.

SOME THOUGHTS ON LONGEVITY AND AGING

Recently, I read an interview with Dr. Robert Butler, head of the National Institute on Aging at the National Institute of Health, and founder of the International Longevity Center. In addition to being a doctor, he is widely regarded as the preeminent authority on aging and longevity. Dr. Butler is a Pulitzer Prize-winning author of six books on aging.

In the interview, he stated several things that I found very interesting, such as one out of every four adults are over 65. Our healthcare system is a mess in part due to the fact that twenty cents of every dollar we spend does not improve our health. Over the last couple of decades the U.S. has dropped from 11th place to 42nd place in life expectancy.

In answering questions regarding the role older people play, he emphasized the importance of grandparents in the lives of their grandchildren as role models, caregivers, and financial support. He talked about the disadvantage of a sedentary life to help combat the obesity epidemic among the younger generation.

Regarding health, he emphasized that "your future depends on how you are now." Diet and exercise (both physical and mental) are key. His longevity prescription consists of eight principles:

1. No smoking.
2. Drink very modestly.
3. Follow a diet filled with fruits and vegetables.
4. Get lots of exercise, not just aerobic but also strengthening and balance.
5. Stay connected to friends and loved ones.
6. Have a purpose in life, a passion.
7. Try to manage your stress.
8. Get enough sleep.

In the area of mental exercise, he suggested things such as learning a new language, learning to play an instrument (or a different one), reading great books, and developing a social network.

On the subject of physical exercise, he commented that a significant cause of death among people over 65 is falling. Therefore, exercise should include improving your balance and strengthening your quadriceps by doing sit-ups. Dr. Butler's is 83 years old and his personal routine consists of sitting in a chair with no arms, then standing up 15 times, resting, and then doing it again.

For mental health, he stated that research discovered that much of dementia attributed to aging was in fact caused by disease, poverty, or personality. If you are interested in learning more, you may want to read one or more of his books.

F I D U C I A R Y

IAR or RR?

You may have missed the debate taking place in Washington about the fiduciary versus suitability responsibility of financial advisors, stock brokers, investment managers, investment advisors, etc.

A dictionary defines fiduciary as "of or relating to holding something in trust for another." A fiduciary relationship is one "founded on trust or confidence reposed by one party in another."

The debate is whether all of the above mentioned financial people should be held to a fiduciary standard. Triggering this debate was the revelation that Wall Street firms had packaged and sold highly sophisticated financial products to allegedly unsuspecting investors that turned out to be worthless or nearly so. The question is whether this kind of behavior should be subjected to a fiduciary relationship.

The Securities and Exchange Commission (SEC) hired a research firm to poll a number of American citizens to determine if people understood the difference between a Investment Advisor Representative (IAR) and a Registered Representative (RR), and discovered very few understood the difference. The difference is an IAR is held to a fiduciary standard established by the Investment Company Act of 1940. A RR is a salesman for a broker/dealer (brokerage firms often referred to as wire houses, regional brokerage firms, and independent broker/dealers) and is held to a "suitability" standard.

Sounds complicated, doesn't it?

In simple terms, an IAR is only to recommend investments or other financial services that are in the best interest of their client. A RR on the other hand, can "sell" any investment that he or she deems "suitable" for the client, but often falls in the area of "buyer beware."

As a result of this research, the SEC has proposed a "watered-down" definition of a fiduciary and the recent legislation on financial reform has only mandated more research be done on the subject.

To further complicate the subject, the SEC has charged Goldman Sachs with fraud in regards to financial products it packaged and sold to institutional investors and then "bet" against the success of those investments by "selling them short." Based on my understanding, Goldman Sachs' actions were not fraudulent or illegal, but certainly not what a fiduciary would do. Unfortunately, I believe, the SEC's action is to take the spotlight off their own failures, both in the area of regulation and enforcement, the Bernie Madoff scandal being only one of many examples.

The "take away" from this complex subject is that every investor should question the financial person they are dealing with and whether they are acting as a fiduciary or as a Registered Representative.

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