

Weekly Commentary April 14, 2008

The Markets

Do you remember the catchy old slogan from GE, “We bring good things to life?” Well, last week they reneged on their pledge. A surprising earnings shortfall from the giant Blue Chip company sent the financial markets into a tizzy last Friday.

We’ve known for some time now that the credit markets are having “issues.” What we’re starting to see more of is how the credit issues are spilling into unexpected places. GE is a good example. They announced an 8% drop in first quarter profits compared to profits a year ago, and attributed a significant amount of that shortfall to problems in their financial services division, according to a report from Briefing.com (www.briefing.com). While we may think of GE as a large industrial company, they actually generate more than one-third of their revenue from financial services, according to Reuters.

Now, here’s the crazy thing. Analysts were forecasting profits from continuing operations of \$.51 per share for the quarter. The actual number came in at \$.44 per share, which equals a \$.07 shortfall. Amazingly, that \$.07 shortfall resulted in a stock drop of about 13% and a decrease in GE’s market capitalization last Friday of about \$45 billion, according to Reuters.

Think about that. A mere 7 penny earnings shortfall wipes out \$45 billion in market value. Does that seem like an overreaction? Clearly, investors were blindsided by the earnings miss and they voted with their dollars by selling stock. But, here’s the lesson. When crazy and surprising things happen in the markets, it may create opportunities. Academics can argue that markets are “efficient” and perhaps the sell off represents an efficient reaction to new news...but, maybe not. It may reflect an emotional reaction to an unexpected situation. Human emotions can make us do crazy things. While we’re not making a buy or sell recommendation on GE here, we are using it as an example to suggest that in the midst of market turbulence, we continue to keep our eyes focused on opportunities that may unexpectedly present themselves.

Returns through 4/11/08	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrials	-2.3	-7.1	-2.3	5.7	8.5	3.2
Nasdaq Composite	-3.4	-13.7	-8.1	4.8	11.0	2.3
Standard & Poor's 500	-2.7	-9.2	-8.3	4.1	8.9	1.9

Sources: Yahoo! Finance, Barron’s. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. Three-, 5-, and 10-year returns are annualized. Assumes dividends are not reinvested.

HOW MUCH MONEY DO YOU NEED to be rich? When it comes to money, it appears that a million dollars just doesn’t cut it anymore. A December 2007 survey by Spectrem Group asked affluent households, defined as those with investable assets of \$500,000 or more, how much money it takes to be rich. Here’s what the survey found:

Amount of a money needed to be rich	Percent of respondents
\$1,000,000	22%
\$5,000,000	45%
\$25,000,000	25%
\$100,000,000	8%

Source: Spectrem Group, December 2007 Survey

The people in the survey already had at least \$500,000 in investable assets so perhaps it's not too surprising that the most popular amount of money needed to be rich was well over \$500,000. In this case, it was \$5 million. I wonder how many of the 8% who said they needed \$100 million already were worth \$100 million?

The survey illustrates a couple important points about human emotions and desires. The first is a concept called anchoring. All the people in this survey already had at least \$500,000 in investable assets so that number is effectively an anchor. According to Investopedia.com (www.investopedia.com), "The concept of anchoring draws on the tendency to attach or 'anchor' our thoughts to a reference point – even though it may have no logical relevance to the decision at hand." With the \$500,000 minimum level of investable assets acting as an anchor, it seems logical that the respondents would say they need more than \$500,000 to feel rich. If the survey asked people with \$100,000 in investable assets how much money they needed to be rich, I suspect the answer would be much lower than the group in this particular Spectrem survey.

The second point from this survey is that no matter how much money people have, many of them feel they still need more. According to George H. Walper, Jr., a coprincipal at Spectrem, "Everybody feels that someone wealthier than they are is rich." It appears that rich may also be a relative term. If you have a net worth of \$3 million, but you compare yourself to and hang out with people who have a net worth of \$6 million, then you may feel you're not rich. On the other hand, if you have a net worth of \$500,000 and you hang out with people who have a net worth of \$250,000, you may feel like you're rich. Or, perhaps rich is simply a state of mind.

Weekly Focus – What Kids Want

A study by the Families and Work Institute asked children in the third through 12 grades this question, "If you were granted one wish that would change the way that your mother's/your father's work affects your life, what would that wish be?" You might guess that children would say they want to spend more time with their parents, right? Wrong. It turns out that less than 16% of the children chose spending more time with their parents as their number one choice. Instead, the top response from them was they wanted their parents to be less stressed and tired. So, to parents everywhere – chill out and enjoy your children!

Best regards,