



THE ADVOCATE GROUP

A Bridge to Financial Clarity

Weekly Commentary August 25, 2008

The Markets

When Warren Buffett talks, people listen. Last Friday, the famed investor spent three hours talking to CNBC's Becky Quick live from Omaha. Here are a few highlights from their conversation that are worth sharing.

When asked about the state of the economy Buffett said, "The country will be doing far better five years from now than it is now, but it won't be, in my judgment, it probably won't be doing better five months from now." In other words, Buffett seems to be saying that we need to take a long view here and realize that it took us more than 12 months to get into our current predicament, so it may take more than 12 months to work our way out of it.

Buffett seems to think there's value in equity markets around the world. In one of his more upbeat remarks, he said, "I see values in all arenas. I mean, we try to look for the best ones, but there's no magic to any given market and things are cheaper than they were a year ago in markets here and in markets around the world. So, everything is more attractive, generally speaking, both here and in Germany, and the UK, and Korea, and you name it."

So, what keeps Buffett up at night? What does he worry about? His answer is quite instructive.

"Well, I don't worry that much in the sense that we've been through lots of recessions in the past, and that the country always comes out stronger, and so I expect, I expect stock markets to go down from time to time. I expect there to be uncovered, I expect that we will uncover credit mistakes. I expect that we'll have recessions. But, I also expect, and I'm totally convinced, that your children will live better than you and your grandchildren will live better. So, I don't, I don't get upset about, day-to-day, what's happening in the market. It may offer, in fact, it does offer chances to buy things more attractively. I mean, if I go to a supermarket and things are on sale, I feel better."

Buffett's optimistic words helped the stock market post a strong gain last Friday. However, weakness early in the week left the market slightly down for the week. As Buffett says above, the good thing about weak markets is they may create attractive investment opportunities. As your wealth advisor, we continue to do our best to find those attractive opportunities and turn them into financial success for you.

Returns through 8/22/08	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrials	-0.3	-12.3	-13.1	3.2	4.5	3.1
NASDAQ Composite	-1.5	-9.0	-6.3	4.1	6.5	3.0
Standard & Poor's 500	-0.5	-12.0	-12.7	1.9	5.4	1.7

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

HOW WOULD YOU LIKE A JOB where you make nearly a million dollars a year yet your accuracy in your main job activity is less than 10%? It appears that such a job exists and it's called "Wall Street Securities Analyst."

Back in the heyday of securities analysts—the bubblelicious late 1990s/early 2000s—these stock stars pulled down average annual paychecks of \$1.8 million, according to a March 2003 *Fortune* article. By 2003, the brutal bear market had taken its toll and the analysts' pay was down to approximately \$800,000 per year, according to that same article.

Analysts are paid to research companies and develop earnings estimates. These earnings estimates are used to help determine if a company's stock is valued appropriately in the stock market. Money managers then use these estimates to help them make buy and sell decisions. You would think that these highly educated analysts (many of whom have MBAs, CFA designations, and come from prestigious schools) would be quite accurate in their estimates. Unfortunately, they frequently miss the mark by a wide margin.

An August 20, 2008, Bloomberg story spelled out in stark terms just how poorly analysts have fared lately. Bloomberg said, "Analysts correctly predicted results for 6.7% of the companies in the Standard & Poor's 500 Index that released second-quarter earnings, the fewest since Bloomberg began tracking the data in 1992." With less than 10% accuracy in predicting earnings, it's no surprise that many investors have trouble "beating" the market. The analysts were particularly off the mark in forecasting earnings for banks, brokers, insurance companies, and retailers, according to Bloomberg.

This inaccuracy is not just a recent phenomenon either. David Dreman, in his 1982 book, *The New Contrarian Investment Strategy*, cites a 1977 study published in the journal *Financial Management*, which shows how poor analysts were in making forecasts back in 1972-1976. In the study, the researchers found that the average annual error for earnings estimates on 92 New York Stock Exchange listed companies between 1972 and 1976 was 24.1%. In other words, the actual earnings from these companies were about 24% different from what the analysts had projected.

As they say in the computer business, "garbage in, garbage out." It's no different in the investing world. When you work with poor data, it's difficult to be a successful investor.

We try to be careful in distinguishing between data we think we can "trust" and data that we think is susceptible to "error." Securities analysts provide good background information, but their earnings estimates are often not very reliable. We've learned that being somewhat of a skeptic and filtering information through our own lens tends to pay dividends.

Weekly Focus – Just Six Words

Can you summarize your life in just six words? A recent book titled, *Not Quite What I Was Planning: Six-Word Memoirs by Writers Famous and Obscure*, is filled with these short life stories. Here are several examples:

“Risky it all; wasn’t quite enough” by Greta Orris.
“Aging late bloomer yearns for do-over” by Sydney Zvara.
“Painful nerd kid, happy nerd adult” Linda Williamson.
“Extremely responsible, secretly longed for spontaneity” by Sabra Jennings.
“Too much suffering because of money” by Sam Norton.

It’s not easy to find just six words that encapsulate your life, but it’s a worthwhile exercise. Give it a try. We’d love to hear what your six words are!

Best regards,

The Advocate Group

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

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