

CLIFFORD SWAN

THE INVESTMENT COUNSELOR

SERVING CLIENTS SINCE 1915

FOURTH QUARTER 2010

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Positive Trends for the 2010s? WAVES, BUBBLES AND RENEWAL



By Randall
L. Zaharia, CFA

For the last three years, the world has suffered through financial and economic stresses, including write-offs, foreclosures, market plunges, and significant increases in unemployment. So, what's ahead? Many have enumerated the headwinds we might encounter, describing a "new normal" with retarded growth, accelerating inflation, and/or stagnation. Despite these problems, we believe investors should not lose sight of the bigger role played by innovation and technology in shifting the economy in positive directions.

One place to start is with the long-wave

economic cycle, first noted by Russian economist Nicholai Kondratieff in the 1920s. According to Kondratieff, economic patterns ("K-waves") surfaced during the 1700s, contingent with the shift from agrarian societies to industrialized ones. These K-waves appeared to be 50 to 55 years in length, plus or minus 10 years, with peaks marked by economic expansion and production growth, while troughs (roughly 10-15 years in length) were marked by production declines and substantial increases in unemployment (see graph below).

What the K-wave concept underscores are the important impacts that innovation, technology, and finance have on long-term economic upswings and downswings. Joseph Schumpeter, a follower of Kondratieff's work, more formally noted the impact of innovation

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MARKET OUTLOOK

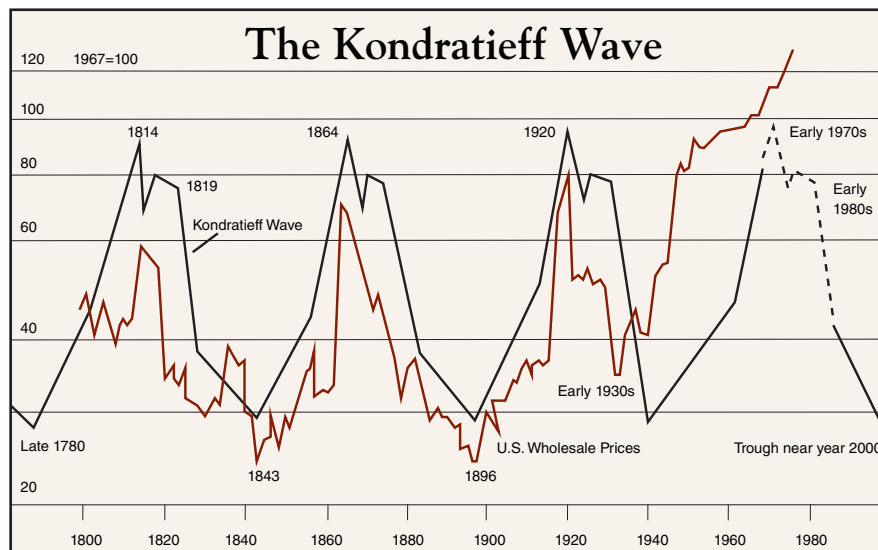


By Anil Kapoor, CFA

High Quality—We'll Stand By It

Clifford Swan Investment Counsel has a history of investing in "high-quality" companies. The term high-quality can mean different things to different people, but to us it means that a company displays three important characteristics:

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(SOURCE: ROTHBARD, 1984)



By Peter J. Boyle, CFA, CIC

As we enter 2011, I thought it would be worthwhile to use my comments to touch briefly on recent, notable events, which will impact our readers in 2011. If you have questions related to any of my topics, please let us know.

11th Hour Tax Legislation

As most postulated, Congress and the President enacted sweeping tax legislation at the 11th hour, impacting many important tax areas: income, estate and business.

While there is not sufficient space here to cover all the details, I wanted to highlight a few items of particular importance to our clients and readers.

- Income and capital gain tax rates, reduced under the Bush administration and due to expire at the end of 2010, were extended until 2012.
- Estate taxes, which were temporarily eliminated in 2010 before being scheduled to revert back to earlier rules in 2011, were restored. The exclusion has been significantly increased over 2009 levels to \$5 million and the tax rate is set at 35%. Importantly, the basis step-up rules which were in effect prior to 2010 were reinstated and “portability” between spouses of unused exclusion was added. The new law can apply retroactively to 2010 and remains in effect for the next two years.
- Perhaps the most stimulative aspect of the law reduces payroll taxes by 2%, but only for 2011. According to CCH, a leading provider of tax and business law information, it is estimated this tax holiday will inject \$110 billion

into the economy in 2011 and should add further support for the recovering economy.

- For taxpayers, aged 70-1/2 and older, with IRAs, the ability to donate up to \$100,000 directly from IRAs to charities and avoid income taxes was restored through 2011.
- Notably missing from the legislation was the extension of the Build America municipal bond program wherein the federal government subsidizes a portion of the interest cost. These bonds are likely to be a current holding in your tax-advantaged portfolio.

Coal in Custodians' Stockings

We hope you and your family had a wonderful holiday season. Unfortunately for custodians, many spent their holidays making final preparation for new tax reporting requirements which began phasing in on January 1.

In 2008, when the Emergency Economic Stabilization Act was passed, an effort was made to ensure more accurate tax reporting (i.e., generate more revenue). Congress used the opportunity to dramatically change the tax reporting requirements for our custodians.

As you will be reminded when you receive your various 1099s this year, custodians have historically been required only to report dividends, interest and the proceeds from security sales. Under the new legislation, the first phase of which became effective on January 1, 2011, this reporting requirement has been expanded to include the adjusted cost basis of the

securities being sold and the long- or short-term nature of their holding.

Taxpayers are still responsible for reporting accurate cost basis to the IRS on their tax returns for all securities sold.

As you might imagine, the challenges and possibilities of errors resulting from multiple purchase dates, spin-offs, mergers, gifts, donations, etc., is sizeable. But as has been our practice, we continue to keep independent basis records and will work with your custodians to diminish errors in the information reported to the IRS.

These requirements, which will be phased in over three years, 2011–2013, apply to:

- Equities acquired after January 1, 2011
- Mutual funds, ETFs and dividend reinvestment plans (DRIPs) acquired after January 1, 2012
- Other securities, including fixed income and options, acquired on or after January 1, 2013.

New Orange County Office Location

Effective December 1, 2010, we relocated our Orange County office from Huntington Beach to Costa Mesa. This new location will help us serve our greater Orange County clientele better, from a more convenient location. And, after 10+ years, the previous office was sorely in need of a face lift. The new office is located at 650 Town Center Drive, Suite 845 in Costa Mesa. The phone and fax numbers remain the same. If you find yourself in the area, please give us a call and stop by. ♦



By Ken Dike, Esq., CPA

DETERMINING THE DATE OF A Charitable Gift

The date on which a charitable gift is made, also known as the “date of delivery,” not only determines the tax year in which the related charitable deduction may be taken, but could determine the value of the gifted assets. This is most relevant when securities that fluctuate in value over time are given to charity, since non-cash assets are priced, for gift valuation purposes, as of the gift’s *date of delivery*. Lastly, the gift date could affect the donor’s long or short-term holding period of the gifted asset.

The gift’s *date of delivery* depends on the nature of the asset donated and the method by which the asset is transferred to the charity. This article will explore the rules for gifts by check and credit card, as well as gifts of securities, mutual funds, real estate, and works of art.

Gifts by Check

In general, the date the check is placed in the mail is the *date of delivery* (mailbox rule). A check that was mailed on 12/31/2010 will have a 12/31/2010 gift date regardless of when the charity receives the check or when the charity presents the check for payment.

Some courts have problems with the date stamped on the check envelope by a private postage meter. To be certain of the gift’s *date of delivery*, the check should be mailed using the U.S. Postal Service certified, or registered, mail with a return receipt requested.

If a check is hand-delivered, the *date of delivery* is the date on which the check is physically delivered to the charity.

If a check is post-dated to some point in time after the check has been delivered, the effective *date of delivery* is the later of the check’s post-date and the date the check is placed in the mail or hand-delivered.

Gifts by Credit Card

The gift’s *date of delivery* is the date on which the credit card charge is made and not when the donor subsequently pays the bank. It is not entirely clear whether the date of the credit card charge is the date

The gift’s *date of delivery* depends on the nature of the asset donated and the method by which the asset is transferred to the charity.

on which the charity receives the credit card information or the date on which the charge is posted to the donor’s account. To be safe, a donor should avoid last-minute donations by credit card.

Gifts of Securities (Stock Certificates)

The method of delivery is most important in this category. Gifts of securities may be hand-delivered, mailed, electronically transferred, or reissued in the charity’s name. Each delivery method has its own *date of delivery* rules. This is most

significant with securities, since the *date of delivery* will determine the amount of the gift as the securities will be priced, for gift valuation purposes, on the date of the gift.

If the actual stock certificate is hand-delivered or mailed to the charity, it must be properly endorsed by the donor or accompanied by a properly endorsed stock power. When endorsing the stock certificate, or stock power, it is important that each named owner sign exactly as their name appears on the stock certificate. The signatures must be guaranteed by a bank or other institution participating in the Medallion Signature Guarantee program.

Most charities recommend that nothing other than the Medallion Guaranteed Signature be included on the back of the security or the stock power. This will enable the charity to complete the assignment portion (to whom the stock is being transferred) with the name of its custodian or street name. It is important to remember that once endorsed in blank (no assignment name), the stock certificate, or stock certificate plus stock power, is a negotiable instrument and care must be taken to keep such documents secure.

Securities: Hand-Delivery

The gift’s *date of delivery* is the date the security is received by the charity. This also includes the situation where the donor hand-delivers the security to the

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POSITIVE TRENDS FOR THE 2010s?

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and technology on the long wave, and coined the concept of “creative destruction.” This concept describes the cyclical process by which old industries give way to new industries born from the creation of resources previously unavailable. Later, economists from MIT extended Schumpeter’s work to identify the challenges caused to the economy by resistance to new innovations.

More recently, Tony Boeckh, an economist and former Bank Credit Analyst chairman, described some historical examples of innovations and transitions supporting the concept of “creative destruction:” cotton processing and the steam engine in late 1700s; railroads and steamships in the mid- and late-1800s; steel-making, autos, and the telephone in the late 1800s/early 1900s; and the Internet and wireless communications today. Boeckh notes that these innovations lead to both positive and negative crosscurrents, ultimately creating overinvestment and overcapacity in the new industry, and laying the seeds for “creative destruction” once more. Boeckh’s view is that the long wave is bottoming, or did bottom (circa 2009), and that we are due for an upturn over the next few years (2010s). He also notes that the current innovation revolution is ongoing, and that the U.S. has formidable comparative advantages to draw upon.

When considering some of these comparative advantages, we acknowledge the U.S.’s strong higher-education system, extensive research and development (R&D), a flexible economic system, and leadership in biological and genomic research, among other areas. John Mauldin, an investor and commentator, notes that the breakthroughs over the next 10 to 20 years could include gene therapy, stem cell research, new energy sources, nanotechnology, robotics, and artificial intelligence, to name a few. Mauldin also comments that even though he sees a heavy set of headwinds (regulatory, financial, global economics), he is optimistic about these new possibilities.

There is no question that a number of forces are at work on long-term economic cycles, and some economists have problems with Kondratieff’s work, suggesting that other factors may be more influential than innovation and technology. Still, we find the long-wave analysis intriguing and suggestive of better times ahead.

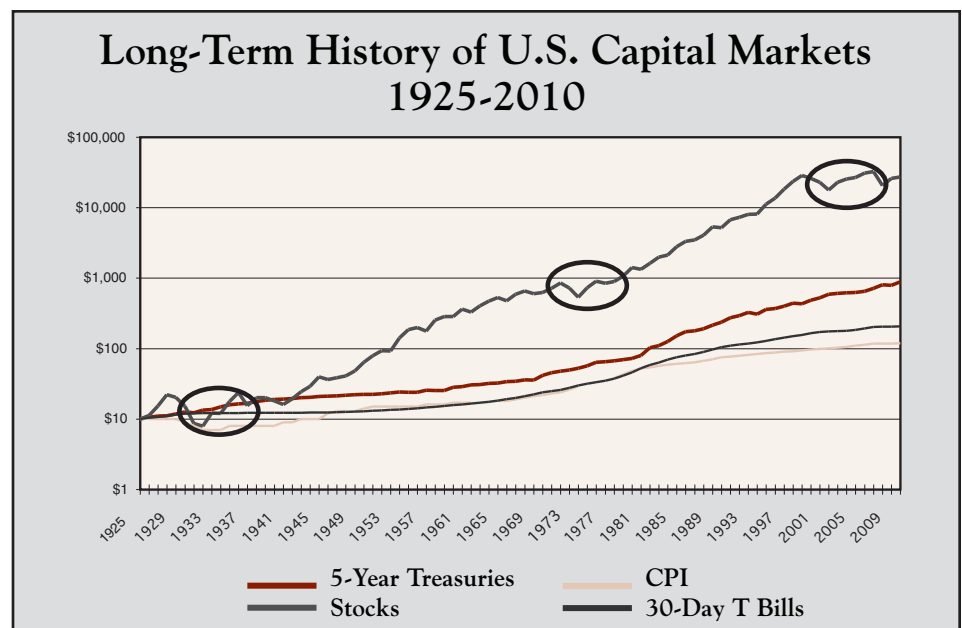
On a related note, we also see patterns in the equity markets over the last 100 years. A review of the graph, below, shows periods of stock market stagnation during the 1930s, the 1970s (both lasting about 12 to 14 years), and most recently, the 2000s. The current market trough is now about 11 years old, suggesting that a strong upturn in the next few years is possible. This trend is also seen in Rothbard’s graph, where the trough appears to be in the 2000s, suggesting an upswing will follow soon. Granted, there are a lot of headwinds in our current economy, but both graphs point to a possibly stronger mid- and late-2010s.

Application in Today’s World:

All of this history and theory is meant to highlight the dynamics at play, in spite of, and in some cases, as a result of, the current economic turbulence. “Creative destruction” draws on all of the now-

available resources—labor, capital, excess capacity—and the U.S., as noted above, is in a comparatively strong position to leverage these resources. But what will become of research and investment in areas such as nanotechnology, genomics, energy, and other possible new industries and innovations? And more specifically, how does one identify potential winners? How should we invest accordingly?

A broad approach might be most appropriate. That is, a mutual fund of science and technology small caps, with 30, 50, or 100 different companies, might ultimately find a half dozen or so “big” winners—the next generation’s innovators. In addition, many mid- and large-cap companies do have a propensity to innovate and/or adapt to the changing environment. For example (and not necessarily for recommendation), IBM revolutionized computing in the 1950s and 1960s. Then, in the 1980s, IBM transformed the computer arena with the first, commercially-viable personal computer, only to adapt their product offering, yet again, in the 1990s and 2000s, by shifting to software and services (intellectual capital). IBM’s strengths in research and development, flexible



SOURCE: IBBOTSON, BUREAU LABOR STATISTICS

PLANNED GIVING NEWS

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corporate structure and management foresight, while not guaranteeing a path to success, do highlight some of the factors that enabled this company to strategically adapt and move along the wave.

As a guide, we may look at underlying themes that are suggested by the theory we've discussed. For example, what industries are ramping up their R&D efforts, a key catalyst for innovation? Increasing healthcare demands will fuel R&D in stem cells and genomics, while increasing demand for energy, especially in the developing world, will lead to not only exploration but also R&D on new sources. The demand for commodities and food is driving research on genetically-modified seeds, and growth in the internet and cloud computing may lead to new and dramatic changes in the way we process our lives. All of this emphasizes the need to be aware of themes, as well as to look at the underlying valuation of companies.

In summary, there are some key longer-term trends investors should be aware of, and, if possible, anticipate. The mid- or late-2010s could be much more attractive than seems possible today, given all the heavy weight tied around the U.S. and world economies. As Warren Buffett, Chairman of Berkshire Hathaway, has commented (and Mauldin has echoed), things will not be as dark as we picture them now. We do not know the future, good or bad. But we take great interest in the positive trends emerging among the many negative ones. ♦

Sources used for this article include:

- 1) Rothbard, M. (August/September 1984), "The Kondratieff Cycle: Real or Fabricated?," <http://www.lewrockwell.com/rothbard>
- 2) Cheung, E. (2007), Baby Boomers, Generation X, and Social Cycles: Volume 1, North American Long Waves.
- 3) Cox, W.M., & Alm R. (2008), "Creative Destruction" <http://www.econlib.org/library/Enc/CreativeDestruction.html>
- 4) Mauldin, J. (11/29/2009), "Why I am an Optimist" <http://www.frontlinethoughts.com>
- 5) Boeckh, J.A. (2010), The Great Reflation: How Investors Can Profit From the New World of Money.

donor's broker or agent who then hand-delivers the security to the charity.

Securities: Mailing

Since the properly-endorsed, blank stock certificate or blank stock power with the stock certificate are negotiable instruments, it is best to use the blank stock power when mailing. Send the unendorsed stock certificate to the charity in one envelope and then send the properly endorsed blank stock power to the charity in another envelope. Since both documents (certificate and power) are required to transfer the security, a two-envelope approach limits the opportunity for theft.

As with gifts by check, the *date of delivery* is the date the security and stock power are mailed to the charity or the charity's agent.

Securities: Electronic Transfers

The Depository Trust Company (DTC) streamlines the process required to transfer securities from one person or entity to another. Your custodian should be able to easily transfer securities through DTC to your charity. DTC is the easiest, safest, and most efficient way to accomplish security transfers. No actual paper stock certificate is moved. The transfer of ownership is accomplished through a "book entry" change in the owner's name.

The *date of delivery* is the date the security is electronically transferred, by DTC, to the charity. This transfer can be accomplished within a day or two from the time you give the transfer instructions to your broker or other financial institution.

Securities: Reissued in Charity's Name

Physical securities held by the donor can be delivered to the donor's bank, the donor's broker, or to the company that issued the security with instructions that the securities be reissued in the charity's name.

The gift's *date of delivery* is the date the owner's name is changed to the charity

on the books of the issuing corporation; which could take weeks. This delivery method should be avoided since the donor loses control of the actual gift date and therefore the value of the gift.

Gifts of Mutual Funds

Mutual fund shares cannot be transferred electronically through DTC.

If the donor holds the mutual fund shares in a brokerage account at a firm where the charity also has an account, the shares can be transferred directly into the charity's account by journal entry. Many charities have brokerage accounts at several firms for the purpose of accepting gifts of securities, including mutual funds. If the mutual fund shares are held at a brokerage firm where the charity does not have an account, or the shares are held at the mutual fund company itself, the donor will have to arrange for a transfer of the shares to the charity. Charities usually accommodate the donor's needs by opening an account at the donor's brokerage firm or at the mutual fund company.

The donor must give instructions to either the brokerage firm or the mutual fund company to transfer the shares to charity. The *date of delivery* is the date that the transfer takes place, which could take weeks. For the same reasons as mentioned for the reissue of stock certificates, mutual fund shares are not the best source of gifting in some cases.

Gifts of Real Estate

The gift date is the date the charity receives a properly-executed deed, unless local law requires that the deed be recorded. When recording is required, the gift date is the date the deed is recorded.

Gifts of Art

The gift date is the date that legal title to the art is transferred from the donor to the charity and the charity takes *actual physical possession* of the art. ♦

Formal Investment Policies



By Bruce C. White

While this article focuses on a common concern of our not-for-profit clients (hospitals, universities, religious organizations, community service providers, etc.), it may also be useful to our individual clients who can address these investment policy (IP) elements in a less formal way with their investment counselor.

All not-for-profit organizations should have a written IP for their endowments and investment funds, and review the policy regularly as part of their fiduciary duty. The IP provides the “rules of the road” for successfully meeting the investment objectives of an organization by confirming the organization’s expectations and guiding investment management.

We usually work alongside individuals on the organization’s staff, a sub-committee of the Board, or finance committee to develop or make revisions to a current IP and submit it to the Board for approval. An IP may be a two-page or twenty-page document, depending on the complexity of the assignment. Frequently, there are several distinct funds, and each should be defined separately if they differ significantly in their objectives or structure. Due to space limitations, this article can only address some of the most critical elements in creating an effective IP.

Fiduciary Duties of the Board of Directors

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) enacted by most States, including California in 2009, should be referenced and a copy provided to all board and finance committee members. The

UPMIFA outlines responsibilities for those who manage and invest charitable funds, providing additional protections for charities and the interests of donors who want to see their contributions used wisely.

Time Horizon

Most funds are a combination of permanently restricted funds, restricted funds, or unrestricted funds which, because of their varying withdrawal restrictions, may differ in spending and, therefore, the investment time horizon. A fund which is to be fully spent within several years will likely have a considerably different IP than another, which is to be invested in perpetuity. If there are significant anticipated cash flows, in or out of the fund, they should be acknowledged and a schedule provided.

Investment Objectives

Determining the relative importance of income, growth, inflation protection, and risk aversion objectives is critical. Many organizations would like to achieve all of these, and while they are not mutually exclusive, they compete with each other when investing. These priorities will affect return expectations.

Risk Tolerance

Risk is not easily defined. Very little risk will result in relatively low returns. Higher risk will usually result in greater volatility, the opportunity for higher returns, and a difficult-to-define probability of meeting investment objectives. Using “Monte Carlo” simulations, we can suggest a probability of reaching goals at different risk levels, asset allocations, and time periods.

Spending Policy

If an organization consistently withdraws more than the fund returns (net of inflation) over an extended time, the long-term benefit of preserving an

investment fund to meet the future needs of the organization is reduced. Current staff and Board of Directors must weigh the trade-offs between current and future generations, as they carry out their duties. If spending is too limited, the intended purpose of the fund and their donors’ intent may not be met. The UPMIFA, mentioned above, gives guidance on balancing these needs.

We prefer, in agreement with the UPMIFA, that annual withdrawals are limited to a set percentage of the fund’s market value averaged over a longer time period. For example, a spending policy might say, “the draw each year will be 4%

The investment policy provides the “rules of the road” for successfully meeting investment objectives by confirming expectations and guiding investment management.

of the average market value of each of the previous 12 quarters.”

Asset Allocation Ranges

Suitable asset allocation ranges, normal targets, and the frequency for rebalancing the portfolio(s) should be formulated based on the above-mentioned factors. As an example (this is not a recommendation): “Cash may have a range of 0%-10%, a target of 5%, plus any short-term liquidity needed for distributions. Fixed income may have a range of 35%-50%, with a target of 35%. Stocks may have a range of 50%-65%, with a target of 60%.” Equity investments may be further characterized by subsets of large-cap, mid-cap, small-cap, or

international. Target allocations need to add up to 100%, but ranges do not. The tighter the ranges, the less flexibility the portfolio manager has to make decisions based on an analysis of the investment environment. In this case, performance will be strongly influenced by the IP. Less restrictive ranges give more latitude to the investment manager and more control over the results. We advise careful collaboration between the Investment Committee and the investment advisor when developing the IP.

Investment Performance Measurement

There are three questions that should be answered by performance measurements. First, do the fund's investments reflect the requirements of the IP? Second, are the investment objectives being met over a period of time? Third, are the investments performing as expected, given the investment environment?

The third question requires measuring against some index, which is a complicated subject that deserves more examination than the scope of this article. Benchmarking has become a discipline of its own, as no index can adequately reflect all that is happening in the real world, or accurately reflect each individual fund's particular objectives.

Permitted Investments

Some institutions may want to limit investments in an industry that is counter to its principles. For example, a cancer-research organization may restrict investments in tobacco companies. There are many other examples, but the IP needs to clearly define those restrictions. In our same example, if Walgreens sells cigarettes, is that materially important to considering it as an investment? With today's large international corporations, it is difficult to be exact.

There should be percentage limits on

concentrated positions. For example (not a recommendation), the IP might read: "No single bond issuer will be over 10% of the portfolio; government bonds excepted," or "No single stock will exceed 7% of the equity portfolio."

Quality standards for fixed income are more difficult than ever in our current economic environment. Common IP language requires that "no bond will be rated under investment grade (Moody's Baa)," but those standards are no longer adequate with many rating companies under question and many high-quality bond investment opportunities not rated. Many organizations have added the phrase "or judged to be of equal quality by the investment manager" to their policies to address this issue. Bond quality should be part of an annual review, particularly those that may have been downgraded since purchase.

Investment Policy Review Frequency

Certainly, an IP needs to be reviewed if the investment objectives of the organization have changed. Some IPs require annual review, some every 5 years. Too frequent changes to the policy can cause problems with constantly shifting directions, never reaching your organization's goals. Too infrequent reviews will not allow new board members to be part of the process, and there may be changes needed that are neglected.

Conclusion

This brief survey of some critical IP components does not address about a dozen other subjects that should be included. We encourage the development of an effective IP and are always pleased to work through the process with our clients. This process itself can be a great tool for not-for-profit organizations to solidify their values for years to come, and we enjoy the improved relationship that comes from the clarity of this communication. ♦

NOTE

Through our CEO Linda Davis Taylor's family advisory services,* we encourage you to take advantage of the following programs in 2011:

Governance

Ongoing Resources:

- Family meetings to address mission and values
- Communication facilitation and management for large families

Education

Ongoing Resources:

- Financial education consulting and programs
- MoneyWise newsletter & Whitepapers

Programs Planned for 2011:

- Young Stewards Program in September, 2011
- "20-Somethings" workshop in Summer, 2011

Philanthropy

Ongoing Resources:

- Family meetings to discuss philanthropic goals and giving vehicles
- Quarterly Philanthropy Report & Issue Briefs

New Programs in 2011:

- Hands-on field trips for clients/prospects ♦

*CCM Family Advisors (CCMFA) is the family wealth group of Convergent Capital Management LLC, which is also an owner of Clifford Swan Investment Counsel. Linda Davis Taylor is the Managing Director of CCMFA as well as Chief Executive Officer of Clifford Swan Investment Counsel.

The mission of CCMFA is to help families protect and sustain wealth across generations through services in family governance, financial education and philanthropy. The services provided by CCMFA are separate from the investment counseling services provided by Clifford Swan Investment Counsel, engaged under a separate contract. Clifford Swan Investment Counsel may receive an indirect benefit from any clients purchasing services from CCMFA.

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MARKET OUTLOOK

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1. The company is a leader in its industry and will be able to sustain that leadership for the long term. For example, we can say with much certainty that companies such as Colgate and Procter & Gamble will maintain market share in consumer products for many years to come.
2. The financial characteristics of the business are such that even during a severe downturn, it will survive. We favor companies with manageable debt levels and good cash flow characteristics.
3. The company's stock is reasonably valued and warrants new purchase or holding.
From October 2007 through March 2009, there was much pain felt in the equity markets, and while we participated in the downturn, we outperformed most equity indices as a result of our tilt towards higher quality. As markets have rebounded, many of our clients' equity portfolios have recovered at a slightly slower pace. History tells us that as we come out of deep recessions, lower-quality companies will tend to initially outperform. The reason this occurs is that lower-quality companies tend to fall faster and farther during deep recessions, in some cases threatening their very survival. If a company ends up staving off bankruptcy, the stock will move hugely to the upside during recovery. In referencing the second bullet point above, our companies should rarely suffer bankruptcy risk; thus, they go down less during hard times and the subsequent rebound may be somewhat muted. Our first priority for our client portfolios is always capital preservation. The simple rules of math tell us that it's more effective to protect your capital from downside risk rather than chase upside capture.

That being said, we believe the current market is presenting an opportunity for our high-quality companies to eventually outperform. Valuations of our companies are more attractive versus their lower-

quality brethren. We will never stray from our mantra of buying quality companies at reasonable prices. Investing in this manner has served our clients well for many years, and we fully believe it's the right way for the future.

Another item pointing in favor of higher-quality, large-cap equities, is their juicy dividend yields. Our companies tend to generate healthy cash flows and many have a strong history of increasing dividends. In some cases, yields on our stocks are higher than their corresponding bonds. Johnson & Johnson (JNJ) is a perfect example of this—JNJ's stock currently has a dividend yield of 3.5% while its bonds, maturing in about 7 years, yield approximately 2.7% (as of 12/1/10). Given the stability of JNJ's business, we'd prefer the potential capital appreciation of the stock combined with the extra 80 basis points of yield over the bond. In addition, that dividend has steadily increased through the years, including a 10% increase this year.

Finally, we thought it would be helpful to briefly discuss an area that we think nicely fits the three criteria mentioned above—large-cap technology. Many large-cap tech companies are long-term survivors, have little to no debt, and are trading at all-time low price/earnings multiples in the 9-11x range. Given the superb balance sheets, robust cash flows, and high-return business models, we think now is an opportune time for additional investment in the technology sector. How can we start to see multiple expansion leading to stock price increases? One catalyst might be the realization that the sector's robust cash flows need to be returned to shareholders in the form of higher dividends. Another could simply be a better economy leading to better top-line growth. And yet another could be some savvy acquisitions leading to value creation. We can't necessarily identify the specific catalyst, but suffice it to say, the risk/reward trade off is in our favor and we'll take that trade every time. ♦