

January 3, 2006

Dear clients,

Happy New Year to all! With the end of one year and the start of another comes the inevitable slew of financial journalists and salespeople who tell us what we should have invested in over the past year and of course what will be best to invest in for the coming year. When I read such seemingly definitive proclamations and analyses I always cringe. Although predicting the performance of financial markets unquestionably is good fodder for the media and popular press, paying attention to this “information,” or worse yet acting upon it, can be very dangerous.

No matter how many espouse the contrary, the fact is financial markets today are far too efficient for any person or institution to accurately and consistently predict which segments or particular asset classes will outperform one another in the short run. And when these messages are delivered with a one year backward and forward time frame in mind, the short run is exactly the period being considered. ***Making long-term strategic investment decisions in response to current events can lead to fatal investment mistakes.*** If you were to pay careful attention and follow-up, you would see that very few if any of these bold prognosticators will ever own up if the future proves their prescience wholly erroneous. In fact, most will offer up some convoluted rationale as to why their forecasts did not come true. Or perhaps they will say they weren't wrong but rather just early. Because of the cyclical nature of all financial markets, it is not particularly difficult to be “early” with any prediction of ups and downs as eventually all markets will experience degrees of volatility. For those unfortunate investors, not you thankfully ☺, who may faithfully heed this advice because it is coming from “experts,” their financial futures may be in grave danger. I can tell you unequivocally that all the market timing, beating, and forecasting systems that assure such easy and great profits if faithfully followed simply do not work and that the only surefire sizeable profits they do create go to the sellers of these systems and not the buyers.

I thank you all for your continuing belief in my “system” of broad diversification and strict control of the costs and consumption rates on your portfolios as this is a strategy that will faithfully serve you through the myriad of up, down, and sideways markets that we will face in the years and decades ahead. Not jokingly I tell all prospective new clients that they will be amazed how little I know about where financial markets are headed in the near, and even intermediate term, for that matter. If they are still in my office after this startling admission of ignorance, I then tell them that thankfully such prescience is not required for them to be excellent and very successful long-term investors. If you really want to do a favor to a friend or family member you can impress upon them that all their energies when it comes to smart investing should be spent on “controlling the controllable” rather than trying to “predict the unpredictable.” ***Helping loved ones not fall into the trap of relentlessly trying to find profits through timing and predicting the ups and downs of financial markets and individual securities is one of the most valuable presents you could ever give.***

And now back to the much more mundane. Unlike previous years, due to frequently amended reporting from many mutual fund families, I will not be issuing statements of your interest, dividend, and mutual fund capital gain distributions from the past year for your non-IRA accounts. Make sure to exclusively rely on all the 1099 forms that you will be receiving shortly from all the financial institutions with which you do business. These are the official documents that all institutions must provide to you, the IRS, and the various state revenue agencies. I'm always happy to try and help you or your tax preparer with any additional information you might need to assist with timely and accurate tax return preparation each year.

Regards and best wishes to all of you for a safe, healthy, happy, and prosperous 2006!

