

# Van Sant & Mewshaw Inc.

*Registered Investment Advisor*

# *Common Sense Advisor* ©

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## MARKET MANTRA

### *ANALYSIS/COMMENTARY*

Once again the US stock market has taken investors on a gut-wrenching rollercoaster ride evoking fear and hope over the first quarter on 2011. The market's wild ride was brought on by violence and riots breaking out in Bahrain, Saudi Arabia, and Yemen, followed by a devastating earthquake in Japan and the subsequent nuclear disaster. Add to this the destabilization of oil-rich Libya and rising doubts about the strength of the U.S. economic recovery

*(Continued on page 2)*

## NEWS AND UPDATES

### *VSM New ADV Part II*

Important: On July 28, 2010, the United States Securities and Exchange Commission (SEC) issued a ruling and Final Rule Change implementing a massive overhaul to the Investment Advisor Form ADV Part II. The form ADV Part II is the disclosure document that ALL Registered Investment Advisors are required to give to their clients before the client hires them. Because of the complete restructuring involved we are required to deliver our new ADV Part II to our existing clients. Hence, we have enclosed a copy of our new ADV Part II with your quarterly report.

### *Email Communications*

We believe that confidentiality and protection of client information is one of our fundamental responsibilities. We employ various tools and methods to ensure that confidentiality, from sophisticated security software to systematic shredding of sensitive materials. Many times we receive requests from client's accountants to send client financial information via e-mail. We have no security control of information being emailed out. Hence, we will NOT email such information without the expressed consent of our client.

### *Changes to the Common Sense Advisor*

Page four has been revamped with a new table which details the highest return and the lowest return for seven asset classes for the last ten-years. The chart demonstrates that market returns are totally random and unpredictable and that past returns offer little insight into future performance.

## **Returns 2011**

<b>INDEX</b>	<b>YTD</b>	<b>1 YEAR</b>
<b>Crude Oil \$ Barrel</b>	+16.79%	+25.75%
<b>GS Commodity Index</b>	+11.76%	+19.87%
<b>US Small Cap</b>	+7.60%	+23.30%
<b>US REIT</b>	+5.80%	+19.60%
<b>S&amp;P 500</b>	+5.40%	+12.50%
<b>Intl Developed Mkts.</b>	+3.36%	+10.42%
<b>Emerging Markets</b>	+1.69%	+15.89%
<b>Gold \$ per Troy oz.</b>	+1.25%	+27.89%
<b>US Bond Index</b>	+0.42%	+5.12%
<b>1 YR US Treas. Bill</b>	+0.05%	+0.22%
<b>US Dollar Index</b>	-0.03%	-6.11%

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*Minimum Account Size \$150,000.00*

and you have the perfect cocktail for investor panic. Indeed, they did panic, pulling the rug out from under the market's six-percent plus gain going into the last week of February. In the preceding sixteen trading days the market gave back all of its gain for 2011 plus some. Moreover, this volatility has once again tested investor discipline and prompted some to question their commitment to equities. During the first two months of 2011 investors added \$22 billion to U.S. equity mutual funds and then during the first two weeks of March withdrew \$8.5 billion from the same funds. The result, bullish sentiment in mid-March fell to its lowest level since August of 2010. Then, right on cue, the market did an about face and jumped six-percent, finishing with the best performance for the first quarter since 1998. While no one knows the future, looking at the past can help gain a better view of long-term market performance and put the recent market volatility in perspective.

Our new table, **Randomness of Market Returns**, which will be a permanent fixture, appears on the back of the *Common Sense Advisor*. The table shows the returns for the past ten-years for seven asset classes which are available to investors. The table is designed to show the performance of each asset class for a particular year. The asset classes are stacked in descending order, by total return. This table illustrates several salient points:

- The market performance, for all of the asset classes, over the past three years has been extreme by historical standards. In 2008, U.S. stocks experienced their second-worst calendar return in eighty-four years. Then, in 2009 and 2010, U.S. stocks rebounded strongly to deliver returns well above their historical norm.

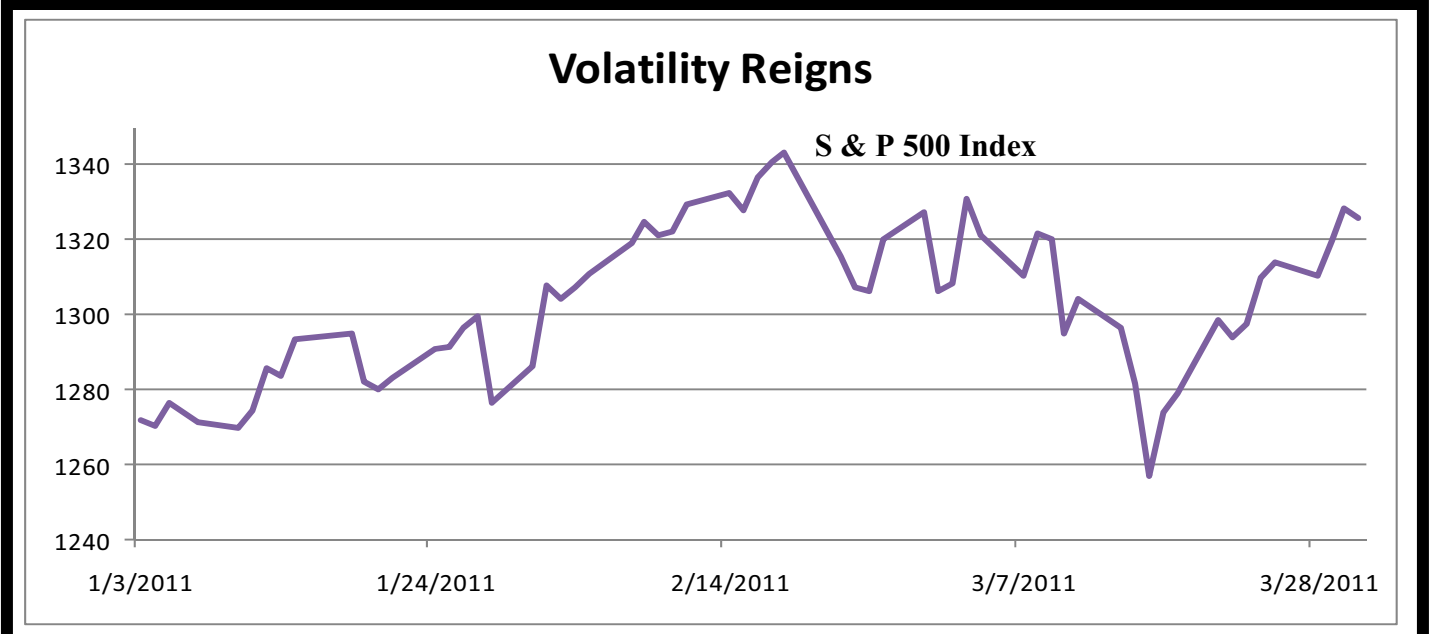
- Over the entire ten-year period, there has not been a single time that one of the asset classes has not had a positive return. Furthermore, total positive return years have outnumbered the negative return years. Over this period positive year returns (where the majority of asset classes register positive) occurred seventy-percent of the time.

- Not only are the positive years more numerous, the table shows a larger concentration of performance in the higher ranges of returns.

- Over time, markets have rewarded those who can bear the risk and stay committed through various periods of performance.

- Most importantly**, the sequences of asset class returns are random, suggesting that accurately predicting future performance is a difficult task for any investor or professional manager.

Diversification gives us a valuable tool for managing risk and volatility in a portfolio. In any given period, asset classes experience divergent performance. This is inevitable and, in fact, it's desirable. A portfolio that holds assets with a low correlation, that is to say they do not perform similarly, will experience less overall volatility. That results in a smoother ride over time.



## NOTABLE QUOTES

“General Electric has closed its last major factory making incandescent light bulbs in the United States, a victim of a 2007 law banning sale of the light bulbs by 2014. Environmental activist groups promised the restrictions would create green jobs, but workers at GE’s Winchester, Virginia plant are finding the law is merely creating red jobs overseas in China. The 2007 law imposed energy efficiency requirements that cannot be met by traditional incandescent light bulbs. Compact fluorescent lights (CFLs), which are much more expensive than incandescent light bulbs, are the least expensive alternative. The manufacture of CFLs, however, is labor-intensive and too expensive to be done at U.S. wage rates. GE could retrofit its Winchester plant to produce CFLs, but GE CFLs would be 50 percent more expensive than bulbs made in China with the benefit of cheap labor. Realizing it could not compete with such a cost disadvantage, GE is closing down its Winchester factory. Two hundred workers at the Winchester plant are being put out to pasture during the worst economic conditions since the Great Depression. Many others preceded them while CFLs gained increasing market share under the looming incandescent light bulb ban.” (*GE Closes Last Incandescent Light Bulb Plant, Jobs Sent to China, The Heartland Institute, Kenneth Artz, November 2010*)

“General Electric, the nation’s largest corporation, had a very good year. The company reported worldwide profits of \$14.2 billion, and said \$5.1 billion of the total came from its operations in the United States. Its American tax bill? None. In fact, G.E. claimed a tax benefit of \$3.2 billion. That may be hard to fathom for the millions of American business owners and households now preparing their own returns, but low taxes are nothing new for G.E. The company has been cutting the percentage of its American profits

paid to the Internal Revenue Service for years, resulting in a far lower rate than at most multinational companies. Its extraordinary success is based on an aggressive strategy that mixes fierce lobbying for tax breaks and innovative accounting that enables it to concentrate its profits offshore. G.E.’s giant tax department, led by a bow-tied former Treasury official named John Samuels, is often referred to as the world’s best tax law firm. Indeed, the company’s slogan “Imagination at Work” fits this department well. The team includes former officials not just from the Treasury, but also from the I.R.S. and virtually all the tax-writing committees in Congress.” (*G.E.’s Strategies Let It Avoid Taxes Altogether, New York Times, David Kocieniewski, 3/24/2011*)

“Aided by at least \$43 million in assistance from the government of Massachusetts and an innovative solar energy technology, Evergreen Solar emerged in the last three years as the third-largest maker of solar panels in the United States. But now the company is closing its main American factory, laying off 800 workers by the end of March and shifting production to a joint venture with a Chinese company in central China. Evergreen cited the much higher government support available in China.” (*Solar Panel Maker Moves Work to China, New York Times, Keith Bradsher, 1/14/2011*)

“The difference between death and taxes is death doesn’t get worse every time Congress meets.” (*Will Rogers, 1879-1935*)

## DILBERT BY SCOTT ADAMS

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I CAN LOWER YOUR CORPORATE TAXES BY USING A STRATEGY THAT TAX ATTORNEYS CALL THE “DUTCH SANDWICH.” AND I’M NOT EVEN MAKING THAT UP.

DilbertCartoonist@gmail.com

SO... THAT WOULD TRANSFER OUR TAX BURDEN TO PEOPLE WHO CAN’T AFFORD TAX ATTORNEYS.

YEAH... THEIR SANDWICH HAS A LESS APPEALING NAME.

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# Randomness Of Market Returns

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
HIGHEST RETURN	Commodity 49.74%	US REIT 12.35%	Commodity 32.07%	Emerging Markets 51.59%	US REIT 33.16%	Emerging Markets 30.31%	US REIT 35.97%	Emerging Markets 36.48%	US Bonds 5.24%	Emerging Markets 74.50%	US REIT 28.07%	Commodity 11.56%
	US REIT 31.04%	US Bonds 8.44%	US Bonds 10.26%	Small Cap US 47.25%	Emerging Markets 22.45%	Commodity 25.55%	Emerging Markets 29.18%	Commodity 32.67%	Small Cap US -33.79%	International Developed 31.78%	Small Cap US 26.86%	Small Cap US 7.60%
	US Bonds 11.63%	Small Cap US 2.49%	US REIT 3.58%	International Developed 38.59%	International Developed 20.25%	US REIT 13.82%	International Developed 26.34%	International Developed 11.17%	Large Cap US -37.00%	US REIT 28.46%	Emerging Markets 16.36%	US REIT 5.80%
	Small Cap US -3.02%	Emerging Markets -4.19%	Emerging Markets -7.97%	US REIT 36.18%	Small Cap US 18.33%	Emerging Markets 13.54%	Small Cap US 18.37%	US Bonds 6.97%	US REIT -39.20%	Small Cap US 27.17%	Large Cap US 15.06%	Large Cap US 5.40%
	Large Cap US -9.1%	Large Cap US -11.89%	International Developed -15.94%	Large Cap US 28.69%	Commodity 17.28%	Large Cap US 4.91%	Large Cap US 15.79%	Large Cap US 5.49%	International Developed -43.38%	Large Cap US 26.46%	Commodity 9.03%	International Developed 3.36%
	International Developed -14.17%	International Developed -21.44%	Small Cap US -20.48%	Commodity 20.72%	Large Cap US 10.88%	Small Cap US 4.55%	US Bonds 4.33%	Small Cap US -1.57%	Commodity -46.49%	Commodity 13.49%	International Developed 7.75%	Emerging Markets 1.69%
LOWEST RETURN	Emerging Markets -31.8%	Commodity -31.93%	Large Cap US -22.10%	US Bonds 4.10%	US Bonds 4.34%	US Bonds 2.43%	Commodity -15.09%	US REIT -17.56%	Emerging Markets -54.48%	US Bonds 5.93%	US Bonds 6.54%	US Bonds .42%

Large Cap US is defined as the S&P 500 Index, Small Cap US is defined as the Russell 2000 Index, US Reit is defined as the Dow Jones US Select REIT Index, International Developed is defined as MSCI EAFE Index, Emerging Markets is defined as the MSCI Emerging Index, Commodity is defined as the S&P GSCI and US Bonds are Defined as the BarCap US Agg Bond Index. Indexes are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

**Market returns are totally random and unpredictable.  
Past returns are primarily useful as a measure of risk; as a predictor of future performance they are useless.**