

# CHAPTER 1

## The Evergreen Portfolio

### THE BIG PICTURE

*Martin Truax*

Our planet had a close call with financial fate in the fall of 2008. The dominoes began to fall as nontransparent hedge funds rejected redemption requests and aggressively yielding money funds were about to do the same. As investors' emotions switched from greed to fear, a classic run on the alternative and shadow banking system began. Some of the most savvy were transferring bank balances to Treasuries only. Complacency had suddenly become concern, and capitulation soon followed. We had a financial panic, the worst in 70-some years. The banking system froze and deleveraging ensued, bringing on a deflationary adjustment in almost all classes of global assets, with the exception of the highest quality of liquidity.

Government financial intervention became the most aggressive in modern times. Liquidity, low interest rates, purchases of doubtful debt, cash to consumers, incentives to buy cars and homes, anything that might slow the speed of the falling dominoes was attempted. *Less bad* was soon seen as *better* than *more bad*. Liquidity went mostly into the financial markets, into stocks and all levels of bonds, from the government's short-term debt to corporate junk paper. With direct correlation, most of the global financial markets

## 2 The Evergreen Portfolio

had a significant rebound. The intervention appeared to be successful for the time being.

Now we have what many are describing as a *new normal*. It's become a different world with higher unemployment, excess manufacturing and housing capacity, and difficult-to-obtain credit. Consumers hesitate to buy beyond the necessities. Their hopeful expectations for the prime collateral of the world, real estate, are forced to be adjusted. Buyers look for bargains and wait until prices are actually further reduced. It's a classic deflationary scenario that ushers in a *self-feeding deflationary trend*.

### The Long Cycle

Extending over the life expectation of the average adult, the long-term economic/financial cycle repeats about every 70 to 80 years. Our human errors are revisited as memories formed by experience fade away. The financial lessons of history are forgotten. Beginning the long cycle, from a conservative mindset of debt *avoidance*, debt steadily is sought and extended until it becomes unmanageable. In the first decade of the new millennium, we arrived at the unmanageable level again. We have employed debt instruments created by financial engineers that are so convoluted that even the engineers aren't sure what, where, or how much exists. Rules put in place some 70 years ago to prevent recurrences of past mistakes were changed and abandoned. Gone were the Glass-Steagall Act, which separated commercial banking from investment banking; the stock lending rule for shorting; and the uptick rule. Gone, too, were the more conservative bank leverage caps, and the regulation on the largest financial markets—derivatives. These safeguards were all abandoned or ignored to allow *greed* to once again overwhelm the system. And the system broke. Can it be put back together once again?

For the U.K., the U.S., and most of the developed countries, it will probably take a long time for the deleveraging side of the long-term cycle to unwind—perhaps a decade *or more*. And depending on who's in charge, our social structures could be significantly altered during this transition. Americans' expectations are high. Y2K proved to be beatable and a nonevent. We continually want and expect quick financial fixes. But Americans have promised themselves *what cannot possibly* be delivered in their future. As I heard the late John Templeton (1929–2008) say simply in one of

his final presentations, “American industry and government have overextended themselves in retirement and health benefit promises.” It has become our expectation to be taken care of in our senior years. Historically, the family took care of the family. Elections and labor negotiations were won with promises that someone besides our family might provide for us instead. The means are just not there. Any further deflation and destruction of the value of what remains (of our nest eggs) will further extend the time for potential financial recovery. We’ve arrived at that point in the cycle where the ammo for quick fixes is getting low and the incoming opposing forces loom overwhelmingly.

## Our Future

In our personal battle for financial survival, plans for our retirement or legacy may need to be adjusted. Certainly our investment strategy will need to be different when we’re in the deleveraging/deflationary back end of the long-term cycle than when we’re in the early inflationary/leveraging expansionary stages of the cycle. In round one of the deleveraging process from 2000 to 2009, the average global investor lost about a quarter of his overall asset values in stocks, bonds, and real estate—probably more if leverage (debt) was employed. Round two, a carryover of the unfinished first round, could be even more destructive. We can expect the governments of the world to attempt to further delay the natural cycle. They’ve done so already, but only by expanding debt even more. This increasing debt will have to be dealt with again at a future time.

As Ludwig von Mises said: “There are no means of avoiding the final collapse of a boom brought on by credit expansion. The alternative is only whether the crisis should come sooner as a result of voluntary abandonment of further credit expansion, or later as final and total catastrophe of the currency system involved.” The writer of possibly the longest-published investment newsletter in the United States, Richard Russell, observes: “There have been other debt bubbles in history, but this one is by far the greatest ever and definitely more international in scope. The outcome when previous bubbles have fallen apart has always been a deflationary depression.” My own thought is that eventually renewed inflation will be the alternative of choice, whether we experience a depression or somehow manage to avoid that potential social changing event.

## 4 The Evergreen Portfolio

From the book *This Time It's Different*, authors Carmen M. Reinhart and Kenneth Rogoff say:

Perhaps more than anything else, failure to recognize the precariousness and fickleness of confidence—especially in cases in which large short term debts need to be rolled over continuously—is the key factor that gives rise to the “this-time-it’s-different” syndrome. *Highly indebted governments, banks, or corporations can seem to be merrily rolling along for an extended period, when bang!—confidence collapses, lenders disappear, and a crisis hits.* [Italics added for emphasis.]

Economic theory tells us that it is precisely the fickle nature of confidence, including its dependence on the public’s expectation of future events, that makes it so difficult to predict the timing of debt crises. High debt levels lead, in many mathematical economics models, to “multiple equilibria” in which the debt level might be sustained—or might not be. Economists do not have a terribly good idea of what kinds of events shift confidence or how to concretely assess confidence vulnerability. What one does see, again and again, in the history of financial crisis is that when an accident is waiting to happen, it eventually does. When countries become too deeply indebted, they are headed for trouble. When debt-fueled asset price explosions seem too good to be true, they probably are. But the exact timing can be very difficult to guess, and a crisis that seems imminent can sometimes take years to ignite.

Just as the economists, politicians, and majority of investors didn’t anticipate round one, or at least its timing, we can probably expect that round two’s long-term impact will be at least equally surprising, and probably at least as destructive. I might expect it could be even more so, as much of the means to defend or counterattack have been depleted. Interest rates can’t go below zero for too long—or can they? To what asset categories will be the next flight to safety?

Is there a round three out there as well? Probably so. It might well be the “unintended consequence” of rounds one and two. What will rounds two and three look like? Biblically speaking, we’re not given to know our fate, but that doesn’t mean that we do nothing in preparation for the possibilities. Some of our colleagues have addressed potential

preparations in the following chapters of this book. Personally, I feel that we need to respond as the events occur. But we need to have in place a plan that we can quickly implement as the future unfolds. The best investors will seize the opportunities as the present affords them. As the late financial manager Peter Bernstein remarked, “Look at your wealth as a loan. It can be called at any time.” By employing a diverse strategy, we’ll hope to survive and maybe even prosper. By all things we can consider, we’ll certainly plan on it.

## Asset Placement

The average investor has accumulated real estate (30%), business interests, cash reserves (12%), bonds (7%), and stocks (25%), as well as life insurance policies and pension plans.\* Most investors use some kind of management for these more liquid assets, be it commingled funds or separately managed accounts. And most have also bought into both the *efficient market theory* and the *modern portfolio theory*. The first theory states that it’s tough to beat the market indexes over time. The second states that you diversify through different styles of management. Different styles can include big cap, small cap, mid-cap, international cap, value, and growth (*cap* is short for the *capitalization* size of the companies).

My response to this is:

**Rule #1.** If you want to survive and hopefully prosper during the back side (the deleveraging) of the long cycle, forget both of those theories.

**Rule #2.** Remember Rule #1.

If you have so much big cap, small cap, mid-cap, and international cap and the market declines, it means that, overall, you’re going to have *so much less cap*. I’ve never had an investor tell me that’s what he wants and expects from his assets—less cap. But most investors have bought into these themes when they were presented to them. It’s what the financial industry teaches its people in training and through continuing education programs. It’s repeated over and over again. Financial advisors and management have no doubt believed it and have certainly bought into it.

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\*Barron’s 9/14/09—David Rosenberg.

## 6 The Evergreen Portfolio

There are certain periods when these theories can work: when the market goes up over a decade or two, such as the two periods of 1949 through 1966, and again from 1982 to 1999. Both were approximately 17-year periods of continually higher markets with periodic corrections (declines). But the three periods of 1966 through 1982, 1929 through 1949, and 1999 through whenever, were not periods of upward-trending markets with periodic corrections. Rather, these were periods when we experienced extended declines with periodic upward corrections. These periods, too, can last 17 to 20 years. The only way for your equity assets to survive and possibly prosper in such a period is for you to become a tactical asset allocator. *Tactical* means: There's a time to increase equity asset exposure, and a time to decrease equity asset exposure. Yes, there should be a timing to be fully invested. There should also be a timing to cause us to be less so. In my opinion, we are in a period for the latter. To think and act otherwise could be destructive to your capital—like a loan, callable at any time.

Most financial advisors will tell you that it's just time in the market. But for the first decade of the new millennium, 2000–2010, the Dow Jones Industrial Average crossed 10,000 approaching 30 times. The index investors didn't make a dime, even with their dividends, for their time in the market. That's 10 years of negative return, with the S&P (including dividends) down approximately 10 percent. In addition to the actual losses, there is also the opportunity loss of the income that could have been received from Treasuries or money market funds had one stayed on the sidelines. Even at the end of that decade, the market was still at a historically expensive multiple to earnings.

We can also look at the results of some of the timing of tactical investors, individuals who used a successful method of adjusting equity exposure during this past decade. Some more than tripled their equity assets during that same 10-year period. We have to choose which drummer we want to march with. Do we go with those who say, "You can't time the market; you can't beat the market"? Or do we march with those who have been successful at doing just that? According to investment manager Ron Arnott, a study shows that annually rolling over 20-year Treasury bonds since 1966 has beaten the S&P during that same period. That's right: For 42 years through December 2008, government-guaranteed bonds have beaten the stock market indexes.

## Bonds

Bonds also need management and adjustment. We can just choose to roll over varied laddered maturities. For example, we can invest in 2-, 4-, 6-, 8-, 10+-year bonds and, when each matures, we just roll to the 10-year period. In 8 years you'll have all the money at more favorable 10-year rates. You'll also have liquidity every 2 years. You could also create a similar ladder going out as far as 20 years. And maybe that's okay for the *first* 70 years of the long-term cycle. But remember, the current cycle was artificially stretched to avoid the pains of recessions. It started when Federal Reserve Chairman Greenspan reacted after the crash in 1987 with, "not on my watch." Presidents learned that *it was the economy* that most impacted their ability to stay in office. Whatever it took to keep the economy growing and the markets hitting new highs became the priority of the past 25 years.

Each economic slowdown of the past quarter-century has been met with lower interest rates and monetary stimulation (called *quantitative easing*). We became accustomed to the "Greenspan Put." The Maestro could turn it around. He could defy the unpleasant deleveraging/deflationary part of the inevitable long-term cycle. We postponed the unpleasant, just as we can postpone a trip to the dentist. Regular trips will keep us healthier. Extended avoidance will eventually allow a small cavity to rot the tooth to the core. At some point, through postponement, it will give way and be lost.

Quantitative easing (money printing or computerized expansion of available cash or bonds) by a government with immunity from writing checks without sufficient funds can be useful in emergency situations. Most of us have overdraft protection on our personal accounts for such occurrences. But when debt is not paid back, how much and how long can it go unaddressed? We'll find out, for sure. Most would agree that we're past the point of being able to repay. We can't raise taxes high enough. We can't cut expenditures low enough (much of the expenditure is interest on the debt). So what can be done? The answer is that eventually we'll probably have to deflate the relative value of debt. Remember your first mortgage or auto loan? If you had to borrow, it probably seemed big at the time. But now most of us look back at that debt as small in comparison to some potential asset financing today. That's a lot of creeping inflation. Just accelerate that inflation of the assets and the current fixed debt, too, can look smaller and more manageable.

We must remember, however, should inflation reappear as a solution to excessive government debt, that interest rates would likely adjust upward. Investors expect to get the inflation rate plus 2 or 3 percent of earnings on their money. If rates go up, previously issued longer term bonds adjust downward to compensate for the new higher rates. So, longer term bonds could leave us with less purchasing power when they mature after inflation, and less principal if we cashed them in early to get the new higher rate. Meanwhile, the short-term rates during ZIRP (zero interest rate policy) leave us little or no return after taxes.

By law, states, counties, and municipal governments cannot run deficits. These governments are not able to write checks against insufficient funds. So, greater care must be exercised in selection of which regional entities will have the sufficient funds in times of state and local government financial shortfalls. Some state budgets are already short almost 50 percent in their tax receipts to their budgeted expenditures. Taxes can't be raised enough to offset these deficits. Budgets can't be easily cut in half without social consequences. Something has to give. How much of it will be from the repayment of bond principal?

### **Fixed Returns**

All this is to say that a guaranteed rate of return might be nice for planning retirement and legacy purposes during the first 60 or 70 expansionary or milder asset-inflating years of the cycle. It might be just as nice in a normal, longer-term backside or deflating side of the cycle as well. But our current cycle was not allowed to be normal on the Maestro's watch. Election considerations were prioritized. So, rolling a large portion of our assets to a guaranteed return during a period of artificially low rates could be devastating if inflation becomes the ultimate answer to debt excess. Since lowering expenditures and raising taxes don't win elections, what do you think the other solutions might possibly be? Investors need to plan accordingly and not get overly fixated on a guaranteed return at this time. And remember, in round one, many of the guarantors had to get guaranteed themselves. That was just in round one. Unfortunately, most individual investors were choosing to place their investable assets into fixed returns (cash and bonds) as this first decade, or round one, was closing out.



## Stocks

Most investors expect history to repeat in terms of long-term performance of equities. Over the long term, 10 percent has been the average. As discussed earlier, there are cycles of approximately 17 years when the returns have substantially exceeded 10 percent, and periods of approximately 17 to 20 years when they have substantially fallen short of the average and actually been negative. The years 2000 through 2009 are an example of an entire decade with negative returns. Over the long term as well, about one third to a half of the 10 percent return has come from dividends.\* With the 80 million or so Baby Boomers wanting to retire soon, or having already done so, they will need income. Total return investing (a combination of dividends and appreciation) yielded unsatisfactory results for the past decade. The biggest problems that caused the financial crisis, panic and a negative performance (overextension of debt and use of derivatives), have only gotten more unmanageable. My expectation for the remainder of this current potential (minimum) 17-year period, which began in 2000, is for more of the same.

I feel that high-dividend stocks will be in strong demand. Combined with hedging techniques that follow the market direction, these “cash cows” can help preserve principal while providing spendable income. As the collection of Social Security and Medicare premiums (taxes) from the working generation falls short of promised distributions to the retired or semiretired Boomers, something has got to give. Will it be “means testing” that lowers our benefit payments, or will it be higher premiums or taxes? Those with “other means” (other income, assets, or both) might even see both a higher tax and a lower benefit payment. To maintain the lifestyle to which we have become accustomed, and want, and expect, Boomers will need to become more self-sufficient—as in having spendable (bird-in-the-hand) income from our investable assets. I feel any time can be a good time to be accumulating high-dividend stocks, but only when combined with a defensive, disciplined, hedged approach to investing.

The *hedged approach* should be transparent (with no secrecy of what you’re investing in), liquid (to be able to get your money on a day’s notice) with no “lockups,” without leverage (with no margin), and guaranteed against theft by government-sponsored

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\* One-third since 1926 for the S&P 500; half since 1919 for the Dow Jones Industrial Average.

insurance. If I am right that retirees will need income to live, what better/easier source than passive, inflation-adjusting high dividends from well-chosen equities to help meet our needs? I believe that future demand for a limited number of higher-dividend company stocks could be strong, allowing for potential future appreciation through participation in secular and cyclical rallies, in addition to the income. But without the disciplined hedge program (tactically adjusting to the market down waves), your assets will be subject to “less cap” and potential capitulation (panic selling at the bottoms of market declines). The transparent, liquid hedged program is essential to your financial well-being for the foreseeable future.

### **Cash**

Cash is king in *normal* deflationary cycles. But again, the old Maestro and the new Maestro remain determined not to have that normalcy on their watch. So, we’ll need continued low interest rates and economic stimulation, as well as somebody to buy *existing* debt as it matures. Somebody will also have to be willing to buy the *new* debt to finance the 10 years of *forecasted* trillion-dollar deficits. And why would the deficits just disappear after the next 10 years? Is the picture getting somewhat more unpleasant, but realistically clearer?

The U.S. dollar has been the reserve currency of the world since World War II. In recent years, the United States has been *importing more than we’re exporting* as our manufacturing capacity continually moves to lower-wage-rate countries. The net foreign purchases (imports we’ve bought with dollars) have been stacking up in foreign hands faster than they can be respent. *At our higher production costs*, there are not a lot of *U.S. goods* that can be exchanged for these stored dollars. If the dollar goes down relative to other currencies, that will make our goods more price attractive. But then, our foreign competitors don’t like losing market share, and they, too, will try to weaken their relative currency value. They can do this by creating more of their own currency in order to buy more dollars (to attempt to push the dollar back up). So all countries most likely will continue to resort to money creation to remain trade competitive.

Money creation has been attempted by the ruling parties throughout history. It has eventually destroyed *every currency ever created* with the exception of those still in use, for the time being. A currency is ideally a means of exchange as well as a store of value.

The only currency still used as a store of value after 5,000 years is gold bullion and coinage. That store of value is still alive and well, and also accepted as a medium of exchange for any other paper currency today.

In a time of currency revaluations, ideally we'd like to be in a relatively appreciating currency. This, too, takes active management. Currencies will be up and down as "flights to safety," trading by speculators and large holders of currencies to diversify in order to adjust their allocation of paper to different assets or exchange expectations. So even our cash asset allocation should not be purely passive, unless it's a less significant part of our asset structure. Some currencies with higher interest rates also experience relative appreciation against the dollar as money seeks higher returns.

### **Real Estate**

Why should a used home or commercial building appreciate? If the replacement costs of a structure rise due to inflation, then the old building may become more valuable as an alternative to building anew. Limited location can also be a major factor. For example, there's only so much waterfront property, and water and extended hilltop/skyline-type views seem to add to the tranquility of the living experience. But besides inflation and the emotional appeal of style and location, there is the income factor. Can a building be purchased for either cash or even all debt, where the rents will cover all the costs: interest costs, taxes, maintenance and repairs, insurance, and utilities? Is there any cash flow remaining? What return would I expect on my cash invested? That tells us the potential desirability of real estate as an investment. We may choose to live in our investment and forgo the cash returns. But if it were rentable, what would the return be? That is the value question, when the issue is not emotional (limited location/style).

Otherwise, if it doesn't give a good return on cash, we're hoping that someone with less economic sense will buy it for a higher price than we paid. In an inflationary environment, that can work. In a deflationary part of the cycle, that doesn't work as well. Again, that's considering the emotional appeal aside. It's strictly business. Potential investors should ask, Is the rental income expected to go up or down? Do we want the maintenance, repair, and leasing problems associated with real estate to occupy our time, or lessen our return if delegated to management? Is passive income investing

## 12 The Evergreen Portfolio

preferable through financial assets? What are the comparative rates of expected return for the efforts?

### Reality

Is much real today? Are statistics believable? Most (70–80% of daily volume) of the trading balance today is done by computers close to the exchanges. It's called "fast trading" and it's done in split-second timing by large professional investors, often ahead of other real buys and sells. The exchanges like the fees it generates and insist it adds to liquidity of the market. But do we remember the *program trading crash* of 1987? Safeguards were put in place to prevent a recurrence, but most of those safeguards have recently been reduced, removed, or no longer enforced.

A large Wall Street firm had a computer and program stolen by an employee in 2009. The firm told the judge that in the wrong hands, that program could destroy the markets. Should we assume that in that large firm's hands, it was in good hands? We see that some large investment firms report in-house trading profits almost every day. We all know that independent day traders doing it the old-fashioned way on their own are lucky to get it right even half the time. They stop their losses quickly and let their profits run to make their returns. Now, are we to believe that the computer traders are in and out in a second and get it right over 90 percent of the time? Go figure. Is it an accident waiting to happen? Or does it have to be an accident? Remember, "the wrong hands" could possibly destroy the market.

It's good to have experienced people in oversight positions to help prevent or solve problems. But how close are the experienced people to those whom they oversee and regulate? All of this adds to the heightened difficulty of expecting old-fashioned returns from buy-and-hold investing. Are we in a time of the fox guarding the hen house, letting the foxy buddies get away with most of the chickens, and the eggs as well?

Perhaps 5 percent of investors understand the potential implications and are staying on top of the changes. Another 10 percent or so are informed enough to follow some of the 5 percent. But the other 85 percent or so probably don't have a clue what's happening. They watch the excited commentators talk about beating earnings guidance expectations (almost all companies do). The commentators

then slump in their chairs at the bottom of a market decline and lean forward with excitement at market tops. It takes a steady view of the big picture to keep our investment heads while most around us are losing theirs. That's not always easy.

## What Can We Do?

When it comes to retirement and legacy planning, what matters is the preservation of both asset value and purchasing power. We'd like (and may need) some growth, too. But gone for now are the easy days of the buy and hold, efficient indexed, and simple asset-style diversification that worked in that much easier expansionary leg of the long-term cycle. We're now deleveraging and deflating, as assets depreciate and debt is reduced. Will it change? Sure, but we have to let the long-term cycle complete, now or a little later. It's not as much fun and frankly it is more work. Buy and hold, reinvest or spend the dividend, and total return is nice stuff, when you can get it. For now, indications are that our world has not solved its financial problems nor found a way to deleverage without pain. Some time, some place, the tooth will eventually fall out.

*We will get to better days, when it's not just less bad that seems better.* It will probably happen first in countries that are just emerging from the dark ages and getting past the hunting, gathering, and farming for the necessities stage and have begun to industrialize. These are countries where the citizens are anxious to work, save, and invest. They are just starting to consume more and respond to demand creation through commercialization. They, too, will want and eventually expect more immediate gratification, and will most likely begin to borrow to meet their consumer wants. These countries will grow and prosper, and probably reach a bubble point of debt over time as well. The developed world has already been there and done that, for now.

Our elected and appointed officials are trying desperately to reflate as quickly as possible to avoid the pain of further deflation and economic collapse. ("Please, God, give us one more bubble" is the bumper sticker *du jour*.) Can they do it? If so, for how long? And what will be the future unintended consequences? Nobody can know for sure. We just can't anticipate who will decide what. Political uncertainty also enters into our risk management now. A benevolent dictator may ultimately become desired. Let's hope

it's a friend and even someone we can trust, just so long as he or she promises to take care of our problems. Isn't that what we all prefer?

## **Back to Reality**

Let's get more real. We want to survive, and maybe even prosper a little, right? We certainly have preservation of assets in mind, as well as some growth as the opportunities present. We've got retirement plans, and maybe some extra legacy surplus to do something with, if Peter Bernstein's observation, "our assets are only on loan" doesn't get to us first. So we need a workable plan, one that we might expect to accomplish our goals, despite an anticipated struggle with the back-deleveraging side of the long-term cycle. Our dreams were partially burst and reduced in round one. What should we do now to prepare for a possible second and third assault wave?

## **The Investment Plan**

First we'll *diversify*, because we know we can't guess the next financial event's exact nature or timing. The black swans (unexpected events) are circling, and where they may land, nobody knows. Sleeper cells (terrorists in hiding) could suddenly awaken. So, we'll diversify with cash into varied currencies (including the more enduring 5,000-year variety), bonds, equities, and maybe some real estate and private business holdings we may have chosen to acquire. We'll deal here with just the first three, the more-liquid-asset portion.

All of our liquid assets should be *actively* managed. Blindly buy and hold only at your peril. Do you think the 545 nationally elected will be able to suddenly figure out how to deleverage without pain and live up to the promises that got them there? The *only buy and hold* I can think of for the foreseeable future is that 5,000-year-old currency that has glittered and endured and tends to hold its purchasing power over the longer term. What other asset has *gone up every year* for the past decade?

Currencies, bonds, and stocks need to be in a *disciplined sell system*. We need a seat near the theater exit, maybe even one foot out the door. We should expect some false alarms. *Nobody* gets it all right all of the time. *Nothing wrong with being wrong*. It's part of the investment process. *But staying wrong is what can destroy us*. So we'll be nimble.

Sooner or later (probably near the end of the long wave), the investment industry will come up with a *new* "modern theory"

of *tactical allocation* (shifting levels of financial commitment in response to what is happening). It took a lot of investors 40, 50, or 60 years to accumulate the assets they have, and maybe longer if an inheritance came from ancestors. But let's actively plan and implement a strategy to survive and hopefully even prosper over our remaining years, and to also help benefit those people and causes we most care about as well.

In round one, we had two warning shots from 2000 to 2002 and again from 2007 to 2009. The first hit hard and the second hit harder. We're still alive. But *the problems have not gone away*. The causes (deleveraging debt and derivatives) are just getting bigger. We'll need to plan to retreat from time to time. The financial markets will always try to confuse us and do the unexpected. So let's be prepared as events and timing unfold. We may hope everything turns out just fine. But, hope is not a strategy. We'll also plan on a round two and possibly round three just in case. The debt and derivative clocks are ticking. That benevolent dictator is not yet in place. He most likely does not exist. In the words of Lord Acton, "Power tends to corrupt; and absolute power corrupts absolutely."

We'll wait with suspense, expectation, and a counterplan. We'll want to minimize any further significant destruction of capital. We'll hopefully be part of the 5 to 15 percent who understand that the big picture still looks very stormy. We and our designees will want some wherewithal to participate in the next rebuilding process. But first we will most likely revisit the consequences of our past. We'll just have to get through the completion of this cycle, clear the massive debt burden, check the uncontrolled greed, and start anew. That may take awhile, but it's just like we've read about all those years: "This time it's different" need not apply here. *Preservation through preparation* is our working mantra. Our former slogan, "Make it, keep it," should perhaps be modified to, "Made it, keep it, for now."

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