

Cold Enough For Ya?
It's All a Matter of Perspective...
April 15, 2011

Well, that was exciting! The world seemingly in chaos and the U.S. rapidly going bankrupt, leaders nowhere to be found, except perhaps in the streets, and yet the S&P 500 ended up almost 6%. Other equities did well also, as did bonds. It just goes to show how difficult it is to tie what seems to be the current state of affairs to what will happen in the capital markets. Think about that for a moment; if you could read the paper and watch the news, and then conclude that things are really good or really bad, and the market will be going up or down as a result, how would that actually work in practice?

It is easy to understand how our feelings are affected by the news and our perceptions, and it is easy to see how that can cause the undisciplined among us, those without a plan, to make changes in their investments. Dalbar, a financial services market research company tracks this, measuring cash flows into and out of various categories of mutual funds. And they calculate the results – it ain't pretty. People basically get killed by greed and fear, making the wrong moves pretty consistently.

Yes, the current environment may seem harsh, but take a lesson from hearty Minnesotans; a harsh climate can be all a matter of attitude.

At 50°

Italian & English cars won't start.
People in Minnesota drive with the windows down.

At 20°

People in Miami all die.
Minnesotans close the windows.

At -20°

Washington DC runs out of hot air. (Ya think? Nah. See below).
People in Minnesota let the dogs sleep indoors.

At -40°

ALL atomic motion stops.
People in Minnesota start saying..."Cold enough for ya?"

Events of the First Quarter

This past quarter saw no let-up to major political upheavals, disasters and crises, one following rapidly upon the heels of another, and none resolved. Just a few small examples:

- Japan suffered a catastrophic earthquake and tsunami which caused a crisis at a nuclear power plant which is still not resolved. A serious tragedy and many unresolved questions, from the effects on the world economy to the issues around nuclear power and the dangers of radiation.
- The Middle East outdid itself this quarter. While the usual rocket attacks on Israeli civilians continued virtually unnoticed, several of the region's major Arab countries experienced outright revolutions!!! Think about that one for a moment – this is HUGE.
 - Egypt – one of the largest and most important of the Arab countries, this regime made peace with Israel 30 years ago. Despite the continuing conflicts there, this historic event brought substantial peace and prosperity to the region. But Egypt, while something of a U.S. ally, was an authoritarian dictatorship, and now is in some kind of transition, hopefully to a peaceful democracy, but who really knows?
 - Libya – need I say more? We will be there for some time now, having stumbled and bumbled into a situation which many have serious doubts about. Who are the rebels, anyway? Can they win? If not, then what? What if “the rebels” manage to “win”? What will that mean to the Middle East and the world? Stay tuned.
 - It all started in tiny Tunisia, of course, with what they called their “Jasmine Revolution.” Now, after hitting Egypt and Libya it spreads to Yemen, Bahrain, even Syria! Bloodshed and conflict, dictators in jeopardy. Jordan and the Saudis are pretty nervous. And, of all things, the Chinese are paranoid, seeming in panic over their own potential Jasmine Revolution – a lot of the usual suspects are being rounded up and treated pretty harshly.

A time of sudden and dramatic change, of great danger and enormous opportunity.

Meanwhile, Back in the Nearly Bankrupt US of A...

Let me lead off with a warning – this is not political, it is about the numbers. These days, for some, that is deeply political. If this seems political to you I seriously suggest you consider whether you are getting too caught up in the day-to-day partisanship around all this. Spending (current and future) is way beyond our ability to pay, we are in a major crisis, and drastic cuts are inevitable. It will be painful and difficult, and getting there will be very hard. There, I said it. Please don't be offended; give it some thought.

Minnesota's next door neighbors in Wisconsin are also pretty good at facing harsh realities, not to mention winning Super Bowls. They first made the headlines with chaotic and sometimes violent demonstrations in Madison, as the conflict over spending at the state level was joined in a very direct manner.

Now one of their representatives in Washington, Paul Ryan, the Chairman of the House Budget Committee, has put the first budget proposal on the table, earning the praise of *The Economist* for his courage and for addressing the issue directly, if not for all of the substance of the bill:

“There is plenty wrong with Mr Ryan’s plan. Too much of the gain goes to the rich, and too much of the pain is felt by the poor... Yet at least Mr Ryan accepts that the present system is unaffordable and destined to collapse. Everyone else, including Mr Obama, is pretending that it isn’t.”¹

Columnist Steve Chapman of the *Chicago Tribune* weighed in with an excellent summary of the problem:

“Eventually, someone has to pay for all the health care the elderly get. In the past, the cost has been passed on to younger workers. As the senior population expands and the labor force fails to keep pace, that trick will no longer be feasible.

When a Ponzi scheme runs out of victims, it ends in tears.

Critics can offer different solutions, but there is no escaping the constraints. The reason people will dislike what Ryan offers is not that he's needlessly cruel. It's that his plan confronts reality, and reality bites.”²

I couldn’t have said it better myself.

Best Regards,



Roger C. Hewins III
President

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¹ “Praising Congressman Ryan: At long last somebody is trying to grapple with America’s fiscal troubles.” *The Economist*, April 7, 2011. <http://www.economist.com/node/18530111>.

² Chapman, Steve. “Reforming Medicare for the real world: Paul Ryan’s plan faces inescapable facts.” *Chicago Tribune.com*, April 7, 2011. http://articles.chicagotribune.com/2011-04-07/news/ct-oped-0407-chapman-20110407_1_medicare-spending-cost-spiral-health-insurance/2