



Crystal, Steel and Rubber

Todd Brand, President

"The great enemy of the truth is very often not the lie -- deliberate, contrived and dishonest, but the myth, persistent, persuasive, and unrealistic. Belief in myths allows the comfort of opinion without the discomfort of thought." - John F. Kennedy

At this point, you might be wondering how I came up with my title of Crystal, Steel and Rubber. It's not always easy stitching analogies into truth but I'll begin with a summation of three mindsets I find prevalent today. To the extent that feelings are negative, which by and large they are around the world, they tend to fall into one of the following three themes.

Mindset One: *Crystal* - I once had a beautifully crafted mosaic of investment artwork in my home. It fell off of my mantle and shattered into a thousand pieces and it could never possibly get put back together. To make matters worse, my home was itself a thoughtfully crafted investment and while it hasn't collapsed on me, it has significant cracks in the foundation.

Mindset Two: *Steel* - I once had a solid investment portfolio of world-class companies on my mantle. It fell off with a mighty crash and it just sits there, apparently unwilling to do much of anything except mash my carpet down and rust. And oh, it landed on my toe.

Mindset Three: *Rubber* - I left my portfolio of intelligently diversified investments sitting high on my mantle where they landed a while back and darn if most of them didn't fall off. Those balls are bouncing around my home keeping me up at night. I hope that at least some of them land back on the mantle.

This is a time when we logically ask ourselves just what was on my mantle. I know how we feel about it. But just what was it that fell. In regard to that which is stocks, it is an amalgamation of great companies in the aggregate, sprinkled lightly with bad companies. These great companies on the planet are making massive changes to their business models, their personnel and their products/services. This causes tremendous pain for those relying upon those companies for employment but it suggests that companies, in the aggregate, are made of rubber. In effect, they bounce. Always have, always will. As an interesting intellectual exercise, try to imagine a world without companies.

It has been more than 4 months now since "the worst week ever" (Friday, October 10th) and we've hit some version of a floor six more times since then. And bounced. With each bounce, excess has fallen off and great companies have written off needed losses. Some companies have done it systematically and with precision (think Caterpillar or Coca Cola) and some have done it with their hair on fire (think Wachovia or General Motors). This is definitional to a recession.

Reflect for a moment on all the financial/economic data you've ingested since that week more than 126 days ago. If I had to guess, it might read 90% Negative vs. 10% Positive. Is even that a little optimistic? And yet, the US equity markets are essentially unchanged from that week. (Dow touched 7772 on 10/10/08 and closed at 7850 on 2/13/09).



Regardless of how deep this recession will be, it is both temporary and necessary to the successful functioning of great companies and economies over the long term. Contrary to popular mythology, at this point it is not deeper than the recessions of 1973-74 and 1980-82, though admittedly it is not over yet. Unemployment peaked at 9.0% and 10.6% in those recessions. We stand at 7.6% unemployment today. And though the economy shrunk at a 3.8 percent annualized rate in the fourth quarter of 2008 and is expected to decline another 5 percent +/- in the first quarter of 2009, that looks significantly more attractive than the 7.8 percent plunge in the second quarter of 1980 or consecutive swoons of 4.9 percent and 6.4 percent in 1981-1982.

Our memories are short in this area and we fail to realize what we've done to get to where we are. The best economic and financial run this country has ever experienced began in November of 1982. If you keep a diary or save papers, read the commentary on that month.

To put a fine point on it, here's the single biggest reason to remain gainfully diversified in the world's great companies: The leaders of most nations, and especially your own, have set a table for a substantive increase in the future cost of your life. While they monkey around with stimulus vs. pork and publicly berate their partners in crime, they have unequivocally set one thing in motion....

price increases and tax increases over your lifetime. It is only companies that offer a net of tax, net of inflation, net of expense return to investors that is reliably greater than zero over time. Fixed streams of income, think a 10-year treasury bond paying 2.9%, fail that critical test ultimately and mathematically.

At today's prices, the dividend yield on equities is significantly higher (3.4%) and dividends grow over time where bond coupons do not. This is not an argument against using fixed income as a diversifier, but an encouragement that the stock portion of your portfolio is critical to accommodating higher prices over time.

In the last year, I've had countless conversations with business owners of great companies of all sizes. I am imminently convinced that while politics and potential policies are filling our ears and eyes right now, the hard work of survival is occurring at break-neck speed in the wonderful businesses that make great things and employ great people. This reality isn't broken and doesn't need fixing. I trust that this activity will yield far better lifelong fruit than anything coming from Capitol Hill this week. At the end of the day, "we the people" will once again end up finding a way through the challenge. It's a myth that we won't because in essence, we bounce.

2009 Symposium

Save the Date!

May 29, 2009



*Held at Forest Hills Country Club
10:00 a.m. to 2:00 p.m.*

*For more information or to RSVP contact
Jessica Duvall at jduvall@brandamg.com
or call 636.532.7333*

"How Do I Know You're Not Stealing My Money?"

Jessica Duvall and Cindy Dolniak

In light of the recent Bernard Madoff scandal, "How do I know you're not stealing my money?" seems to be a question on the minds of some investors. We recently read an article which discussed how Mr. Madoff managed this elaborate scandal.



In this case there were red flags, but for some reason(s) the truth did not come to light. Acknowledging that "hindsight is 20/20", we are curious as to how it could have happened.

Were investors blinded by Mr. Madoff's reputation, years of experience, or competitive (reported) returns? If something seems too good to be true...

The article stated that Mr. Madoff reported consistent year-over-year returns in the Fairfield Sentry Limited Fund. The combination of high returns in some years with modest returns in others may have kept the questions about the high returns at bay. Evidently, Mr. Madoff knew what he was doing and how to cover his tracks.



As a Registered Investment Adviser under the Investment Advisers Act of 1940, Brand AMG has a duty to act with utmost good faith and in the best interest of each of our clients. Our policies provide safeguards, and those policies are audited internally throughout the year.

Two advisors are assigned to each client relationship. Not only does this provide a more thorough coverage for discussions and data gathering, it also safeguards against a sole advisor taking advantage of a client.

In addition to a multi-advisor structure, we have a trading policy in place. One advisor or analyst sets up the trade, and another advisor will review and confirm the transaction before it is submitted to the custodian for execution. This ensures that the trade is appropriate and that there is nothing suspicious happening in the account.

Another policy is our use of independent custodians. The custodian holds (or "custodies") client assets and provides monthly/quarterly statements that list holdings, transactions, prices, etc. for your review. This also allows you the opportunity to access your account information directly through the custodian's website if you desire.

In regards to deposits made to your account(s), checks are made payable to the custodian (not Brand AMG), and electronic funds are wired to them directly. When you request a distribution, the

check is made payable to the name/title on your account, and electronic funds are wired to the same.

The only checks we collect are for advisory fees. Advisory fees withdrawn from your accounts will be listed on the statement you receive from the custodian. Our compliance officer performs fee audits quarterly to ensure that the account values are accurate and the amounts withdrawn from the account(s) are correct and in accordance with the fee schedule under which your agreement was signed.

Internally, we maintain appropriate security measures for our computer and information systems, including the use of passwords and firewalls. Our passwords are changed frequently and we encourage you to change your passwords regularly as well. If you do change a password to an account we manage, please let us know so that we may update our system.

We list these items to help you have confidence that while scams will always exist, we are disciplined in our approach to aid and protect you and your assets from such things. If you have any questions, comments, or concerns, please know that we welcome them. Today investors do have concerns because of names like Mr. Madoff; please voice your concerns, you will be heard.

Contact Information

Brand Asset Management Group
16640 Chesterfield Grove Road
Chesterfield, Missouri 63005

(800) 822-8998 Toll Free
(636) 532-7333 Phone
(636) 532-2551 Fax

info@brandamg.com
www.brandamg.com

Investing Can Be Emotional

Ryan Green and Jason Akridge

Understanding our Biases. Far from rational, we as human beings have the distinct ability to allow our emotions to impact



our judgment, often to our detriment. While evident in nearly all aspects of our lives these emotional biases can also have profound negative effects on our investment decisions. In fact, a study by Boston-based financial services research firm Dalbar suggests that we, as investors, lose more than half of our returns to emotional factors. So while it's easy to underestimate our emotions' effect

on investing, the negative connotations can be very real. Therefore understanding our emotional biases is critical to avoiding some common, return-limiting mistakes.

Here are a few widely studied biases we hope to avoid ourselves and help others avoid also:

Overconfidence. Psychological studies consistently show that people in general tend to overestimate their skill in a wide variety of venues. A common example is that, when asked to evaluate their driving skill, 80% of drivers reply that they are above average. But we know that it is not possible for a majority of drivers to be better than average. This same principle holds true in the realm of investing. Many investors attribute their success in producing positive returns to skill, while attributing negative returns to bad luck or a bad market environment. Commonly, success is remembered and failure is forgotten. This can lead to less than ideal purchases or sales of securities based on an irrational and/or unfounded feeling of investment knowledge superiority.

Loss Aversion/Fear of Regret. The fear of loss or regret can be a powerful motivator in the decision to buy or sell a security. Investors have the tendency to refuse to sell an individual security as the price decreases from fear that they will miss out if the price rebounds. Often times these price drops are validated by fundamental analysis and may very well continue. Many economists estimate that sustaining a loss is twice as painful as the perceived joy from realizing a gain, so investors will take irrational action in an attempt to avoid a loss and the accompanying feelings of regret. In order to mitigate these feelings of regret some investors will go so far as to choose “popular investments” so that, if the price does decrease, they can feel better about it because many others made the same mistake.

Anchoring. Put simply, anchoring is the tendency of investors to focus on or become attached to a previous price of a security. For example, if someone purchases stock of company XYZ at \$70 per share and the price subsequently decreases, they may be unwilling to sell because they are certain the price will rebound

Investing can be Emotional

Continued from Page 3

to \$70. In other words they have “anchored” the price of XYZ stock in their mind at \$70. However, this is a fallacy as, theoretically, the current price of a stock is the present value of all future cash flows divided by the number of outstanding shares. Notice that the current price has nothing to do with the previous price of the security. Therefore, decisions to buy or sell should be based solely on current analysis of future expectations, not on where the price of the stock has been.

Herd Mentality. From the Pet Rock to Tickle-me Elmo it’s clear that folks can easily be swept up in the latest fad. This “herd mentality” also holds true in the world of investing, where seemingly logical individuals clamor to jump on the bandwagon of the hottest new investment. This was particularly evident in the technology boom of the late ‘90s when it seemed that every investor had to own a piece of Silicon Valley. We all now know how that turned out. Investors bid the prices of tech companies up to ridiculous levels that had little to do with the underlying fundamentals causing an eventual price bubble that, unfortunately for those who bought near the top, burst.

Keeping Your Emotions in Check. David Dremen in Forbes (5/6/96) wrote that “there is an impressive and growing body of evidence demonstrating that investors and speculators don’t necessarily learn from experience. Emotion overrides logic time after time.” Fortunately, investors can educate themselves to be aware of these emotional biases and the financial pitfalls associated with them. Using this knowledge to keep your emotions in check can truly help you to become a more rational and successful investor.

To the extent that a reader has any questions regarding the applicability of any specific issues discussed above to his/her individual situation, he/she is encouraged to consult with his/her advisor. Remember, past performance may not be indicative of future results. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or position. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from Brand Asset Management Group.

Clients are reminded to contact Brand Asset Management Group if there are any changes in your financial situation or investment objectives, or if you wish to impose, add or modify any reasonable restrictions to our investment management services. A copy of our written disclosure statement (Form ADV Part II) discussing our advisory services and fees continues to remain available for your review upon request.

Tax Information

Jason Akridge

The hardest thing in the world to understand is the income tax. - Albert Einstein



Another tax season is underway. The following is a review of what tax information you should receive from your account custodian(s) (e.g. Fidelity) and from our office.

IRS Forms 1099, 1099-R, 5498

Account custodians are required to send certain data to the IRS. The data for taxable accounts includes dividend/interest income (1099-DIV, 1099-INT), miscellaneous income (1099-MISC) and proceeds from the sale of securities (1099-B). It also includes short-term and long-term capital gain distributions *that are distributed by the securities* in your taxable accounts (1099-DIV). These capital gain distributions are outside of the control of Brand Asset Management Group.

The data provided to the IRS for tax-deferred accounts includes distributions (1099-R) and contributions (5498).

Fidelity will mail your tax data no later than February 17, 2009. The mailing dates for other custodians may vary.

Realized Gains/Losses

Long-term and short-term capital gains *that are generated by the sale of securities* within your taxable accounts are tracked by the performance reporting system of Brand Asset Management Group. We provide this data to you in a report titled “2008 Realized Gain/Loss Report”. For 2006 and 2007, this data was reported at the tax lot level. This year’s report summarizes gains/losses at the security level. If you need tax lot detail, please let me know. You should have already received your report by mail.

As a reminder, if you download tax data into TurboTax from Fidelity, please disregard the realized gain/loss information they provide, and use what we provide instead.

If you have any questions, please be sure to contact me.