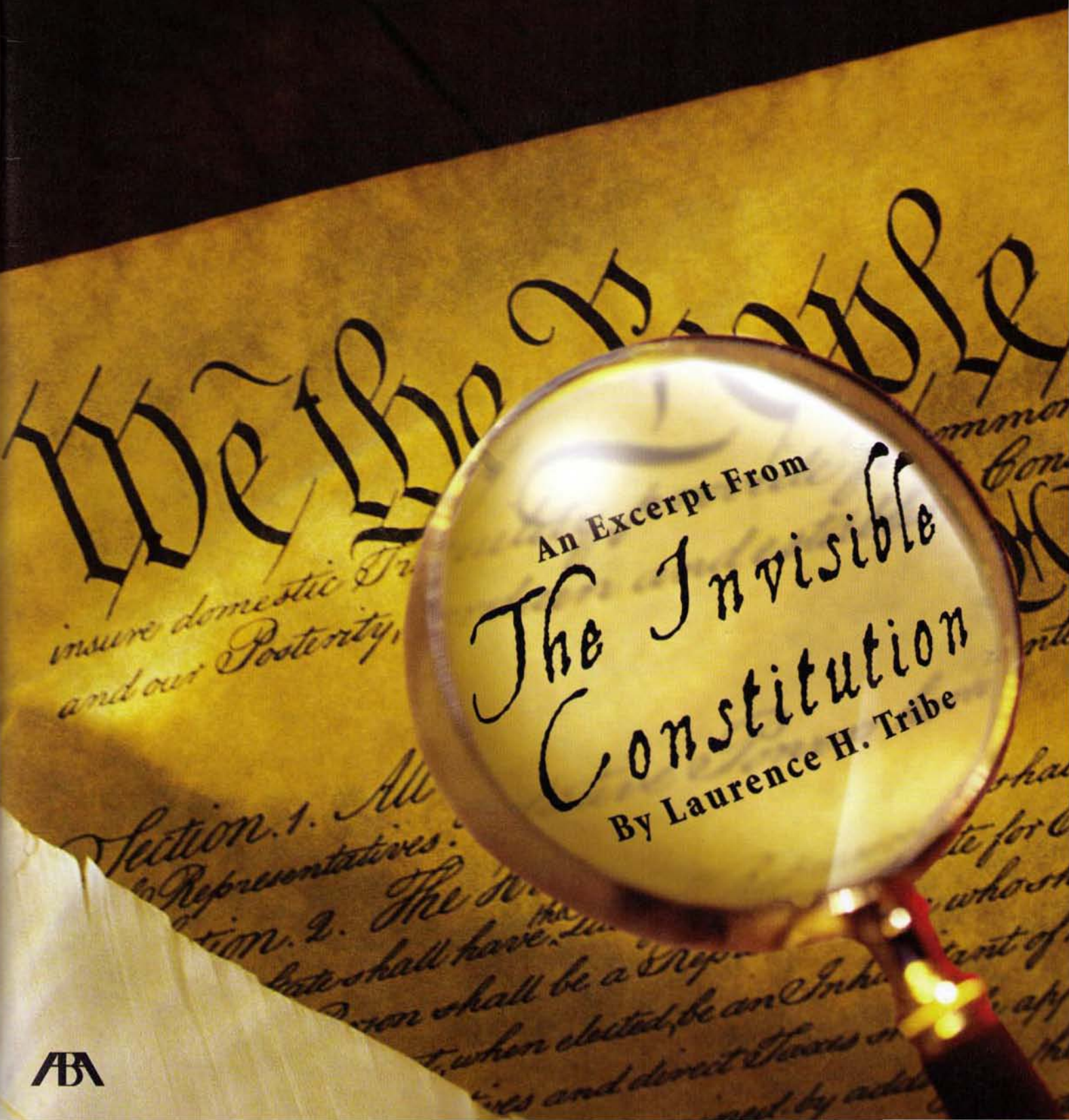


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Navigating the New Age of Financial Uncertainty

By The Investment Strategies Committee



What should we do after a year in which most of us have seen the value of our investments shrink and we wonder whether we can afford to maintain our standard of living in retirement? Some answers to this question were given by **Dawn J. Bennett, CEO of Bennett Group Financial Services LLC**, during a CLE program presented by the Investment Strategies Committee at the 2008 ABA Annual Meeting. The following interview by Bruce Alan Mann, chair of the committee, reflects the views expressed by Ms. Bennett during that meeting, updated to reflect events through the end of 2008.

BAM: Dawn, as a Certified Investment Management Analyst, I'm sure you're frequently asked whether we're near the end of the current financial crisis. What do you think?

DJB: It's a very strange economic world we're living in. The U.S. government is playing the role of big spender and lender, bailing out careless financial institutions and trying to restore confidence in our feeble economy. But in my own work and travel with Bennett Group Financial Services, I have seen precious little evidence of any renewed confidence so far. Wherever I go, people ask me, "Is the outlook really as dire as it seems?"

My answer is that things will get worse before they get better. The market is still in a liquidation phase. Overextended consumers, investors, and financial firms continue to work their way back to solvency by dumping assets for which they overpaid or which they couldn't afford in the first place.

BAM: Are things going to get better soon?

DJB: All I can say is this: It's inevitable that at some point people will simply run out of positions to sell. But a true rebound—one that lasts more than a week or so—requires more than just exhausted sellers. We also will need to see some cause for realistic optimism, some fundamental support, to encourage battle-scarred investors to crawl out from their bunkers and from under their desks. The most obvious and important positive development would be an indication that credit strains are receding and will no longer impact corporate earnings.

BAM: You mean there's no end in sight?

DJB: We're not there yet. But that

doesn't mean we should sit back passively and simply hope for better times. There is quite a bit that we all can do while the markets work their way through this crisis. There are pockets of true prosperity that are evident even now. I believe the market for commodities is one of them. More about that later.

First, though, I want to urge you to use this time of uncertainty and retrenchment to take charge of your own financial future. The road to true prosperity begins with individual choices in the critically important areas of family, fitness, and finance. If you want to enjoy true long-term prosperity, all three must be in balance. Start by taking stock of where you are right now, know where you want to be in the future, and then take action today to move forward.

BAM: What kind of action should we take?

DJB: First, trust in your family to put you on track. Let's begin by looking at family and its role in your financial well-being. Financial health is more than having money. It's actually a state of mind. If you're like most people, you will use words like "freedom" and "independence" to describe your financial goals. That's why one of the most empowering things you can choose to do is to live within your means.

Family can really help you reach this goal. Family is where good financial values are first instilled. Family members and close friends can encourage good decisions where they matter most—in day-to-day budgeting and spending decisions. Family members can help you live within your means, and they can pat you on the back every time you succeed in meeting a goal. Most importantly, family members and close friends provide common-sense support.

BAM: Okay, but what about my investment strategies?

DJB: You've got to develop a financial fitness program. Let's look at how you can apply the principles of an effective physical fitness program to your own goal of achieving long-term financial health. Start with goal setting. Create your own definitions for "success," "freedom," and "financial independence." These definitions should be highly personalized. Be clear on what you want to

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achieve, not what someone else thinks you should be.

Next, set a sustainable pace. Slow and steady wins the race, both in physical and financial fitness. Make small changes, and then allow them to work over time.

Now let's turn to how you measure progress. Use terms that are meaningful to you. Compare against your own benchmarks. Don't look at what others have done and get discouraged. You don't know everyone's complete story. You only know where you've come from and where you want to go. Keep your focus on the discipline of advancing your own personal best.

Don't beat yourself up over slip-ups. All is not lost if you fall off the wagon. Think about what led to your failure, then avoid a repeat performance by incorporating what you've learned into your plan. The bottom line is that self-discipline is the key to both physical and financial fitness.

BAM: Any special advice to those of us who haven't retired?

DJB: You've got to learn to be a saver. Let's look at our third pillar: finance. For the better part of three decades, we have spent beyond our means, and now we are paying the price. We are becoming frugal by necessity. This is a bitter experience, but ultimately, it is a good thing. As we rewire ourselves as "savers" rather than "spenders," we will be doing our part to put our entire economy on a more secure footing over the long haul.

Being frugal is like dieting—it is more sustainable if you have a target or goal. A reasonable goal is putting the maximum amount allowed in your 401(k) annually. It's not always easy, but you have to try. You can't assume someone is going to bail you out when it's time to retire.

In 2009, you can contribute a maximum of \$16,500 to your 401(k). Divide that by twelve, and that's \$1,375 you'll need to set aside each month to fully fund your retirement for a year. It's not always easy to save that kind of money, but it's a goal that should be seriously considered.

Sticking to a frugal regime requires vigilance. That's because those born during the baby-boom years and afterward have grown up without the psychological scars of the Great Depression. Our era is

one of abundance, easy credit, and a taste for luxuries. Now we've had our wake-up call and find ourselves in a new paradigm that requires thrift and frugality.

To thrive in this new climate, we must look carefully at the people surrounding us. Do they believe we need to watch our spending habits? Do they share our understanding of what's required for prosperity? Are they learning to practice the art of saving? Are they pulling you closer to your ultimate financial goals? Surrounding yourself with a good support team—people who understand and share your values—can make the difference between success and failure.

Here are some simple, powerful steps you can take today to build a strong support network for this new age of frugality:

- Tell your friends and family members about your financial goals and dreams.
- Help others in your support group grow by being supportive and enthusiastic about their financial goals and dreams.
- Be available to old friends as well as new ones. Listen to their successes and shortcomings. Share what you've been learning. Teaching each other ways to be thrifty and financially smart helps all of you to reach your goals more quickly.

BAM: All good advice. During your presentation at the ABA Annual Meeting last August, you mentioned investing in commodities. Do you still feel they should be part of an investment plan?

DJB: Yes. Commodities are one of the few pockets of prosperity. For years, the banker owned and drove the Ferrari, but now cotton and soybean farmers are in the driver's seat. Billions of dollars are invested in commodities every single day. This is an unnoticed market that all of us rely and depend on for our daily lives—the cup of coffee in the morning, the aluminum can that holds your Diet Coke at lunch, the wood that builds our houses. All those little things in our lives are paying dividends to smart investors. Without the commodity market, we wouldn't have many of the things we take for granted in life—everyday things would either be scarce or nonexistent, and they would all certainly be more expensive.

Let me be completely clear, investing in anything has its risks. But if you do your homework, remain rational, and act

responsibly, you can invest in commodities with perhaps less risk than playing the stock market. For example: Did you know there has been more volatility in the NASDAQ in recent years than in any commodities index? Blue chip stocks like Cisco, Yahoo, and even Microsoft have been more volatile than soybeans, sugar, and metal. There is also evidence that equities have more downside risk relative to commodities. Remember, commodities cannot go to zero. Shares in Enron could—and did.

What will spur commodity prices going forward? The answer is global recovery and infrastructure spending in Asia. Recent forecasts call for +7.1 percent economic growth in Asia in 2009. The United States will be lucky to get above 1 percent. The fundamental shift in commodity markets will occur because of Asian countries' extraordinary consump-

tion of all kinds of commodities.

BAM: But I believe you also said diversification was important, so I assume you're not recommending that we concentrate our investments in commodities.

DJB: That's right. At Bennett Group Financial Services, commodities are just one piece of a balanced, well-diversified portfolio of thirteen asset classes. This disciplined approach helps our clients succeed in the up markets and in the current bear market. You can succeed, too, even in a bear market as devastating as the one we are in. By saving and investing now, you will put yourself on the path to prosperity. And by saving and investing wisely, you will have true peace of mind and all of the blessings of liberty. As Benjamin Franklin once said, "Industry, perseverance, and frugality make fortune yield." ■