

Introducing, Jim Frye

Jim Frye joined FIM Group in June 2009 as a Financial Adviser. His past experience includes proven success with numerous financial companies where he demonstrated abilities in a wide range of private banking, small business, middle market, large corporate and international banking, and credit administration activities as well as many other large scale projects.

Jim is dedicated to building relationships and accelerating growth with FIM Group clients. He is focused on ensuring that the firm is delivering the highest level of client service and delivering a differentiated client experience.

Frye graduated from Wayne State University with a Masters in Business Administration and a Bachelors' in Finance. In May of 2006 he received certification as a Certified Financial Planner in accordance with CFP Board Certification and renewal agreements.



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AUG 09

Current Observations



Strongest, Smartest and Most Flexible

By Paul Sutherland, CFP®

"I just want to make it through the territory," a FIM Group client told me back in March 2009. "It's that simple." The client had been with us for over 12 years, having hired us while he was still employed, and he is now several years into his retirement. The "territory" he referred to is the next 20 to 30 years of his life funded by returns from his investment portfolio. Fear was more than prevalent this last year, making most people perceive the world differently. News headlines were laden with foreclosures, layoffs and bankruptcy, coupled with massive selling of stocks, bonds and real estate. Few realized, however, that the economic reality is that people and business will adjust as we have for centuries. This discussion of "territory" brought back memories of the westerns I watched and read about as a kid. Back then I was fascinated by everything (I still am), but as a kid I dreamed of being a cowboy and pretended I was John Wayne.

There was one western in particular about a wagon train full of characters, rich and poor, who went seeking a better life. The story was about psychology, faith, stubbornness, trust and truth. During the long journey, the wagon train endured many hardships and was repeatedly attacked by Indians and outlaws. John Wayne played a saddle-wary, leathery ex-military man who had seen it all. He lived hard, but always did what he had set out to do. There was discord among the ranks, and the rich family finally had enough of the fighting and deprivation. Despite warnings from Wayne's character, they turned back anyway. The scene ended with the sight of smoke on the horizon. The next morning the scout came back with a burnt teddy bear that belonged to the family's daughter, indicating that the family didn't survive. Of course, the final scene was straight from Hollywood, with the remaining families that "stayed the course" arriving in the promised land with beautiful meadows, running springs and sunny skies.

The investors that panicked out of the market collectively locked in trillions of dollars of losses. But this is not an article about panic or fear – we seem to have plenty of that to go around. Rather, it is about learning. A client asked

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me a few weeks ago what I had learned from this past year. Her question has since stuck in my head prompting me to articulate what I discussed with her and her husband.

First, we are long-term investors. We don't manage money market funds, CDs or T-bills as our core business – we use them as tools. FIM Group was not founded on managing cash for clients, we have always been about long-term investing. So our clients are primarily those who wish to accumulate a pool of resources that they can use someday to get through their own "territory" filled with ups, downs, manias, fear, greed, depressions, inflation, recessions, booms and busts. We have grown, because for 25 years we have stuck to our core competencies. When I said that to the client she said, "But Paul, what did you learn?"

I learned that people can collectively panic to an extent much more severe than I could have ever imagined. I manage money consistent with my easygoing, rational and patient disposition. I've worked side by side with hedge fund managers that are so short-term oriented that they have more trades in one month than we will have in one year. I have also worked in the brokerage industry where the "product of the day" is what's important.

Back in the early 1980s, real estate, leverage, leasing oil and gas partnerships were the hot-ticket investments. If you even said the word "stocks," "bonds" or "mutual funds" to investors, they would have turned and ran. In March 2009, the push was government bond funds and CDs, and the insurance companies were selling fixed annuities – but most people were already savvy due to the collapse of AIG. What I did learn was, based on all the phone calls from clients, that we may have not educated and prepared all of our clients as well as we should have.

While we consistently write about volatility as a side-effect of any long-term strategy, no one likes the downside volatility we experienced up until March 2009. It stands to reason that any person accumulating funds for a long-term need, like retirement, also needs

"The greatest danger in times of turbulence is not turbulence; it is to act with yesterday's logic."

- Peter Drucker

a long-term strategy. Assets fluctuate in value, and to survive the "territory" you have to be flexible and stay the course . . . especially during tough climates. It is a relatively easy feat when the barrage of volatility and depression talk is not present. But realistically, that is the most important time to evaluate the path. So I learned that we need to spend more time discussing volatility, performance, and surviving and thriving as we go through the territory, especially for our new clients. In fact, we actually are going to get quite scientific about the process and are looking to partner with an Australian firm that has spent years studying and creating risk profiles for investors.

The other thing I realized was that "everyone can't manage." Some CFAs or MBA holders might have all the training and even some experience in the field, but their skills are better for communicating, selling or writing about investing – not actually "doing it." Suzanne Stepan and I have spent our entire careers as money managers, so our DNA is wired to make decisions.

I learned some startling information from this recent malaise. Investment advisers that pushed indexing and asset allocation were actually championing those investment strategies rather than using them as tools. Why would anyone consciously want a bunch of financial stocks in their portfolio? Or GM, AIG or other bankrupt, unethical or near bankrupt companies? Those investors seem unrealistically ignorant about owning crummy companies in crummy industries, all the while thinking that all stocks are fairly valued. The asset allocators seem equally set on the idea that to be successful or diversified you must own a little bit of everything.

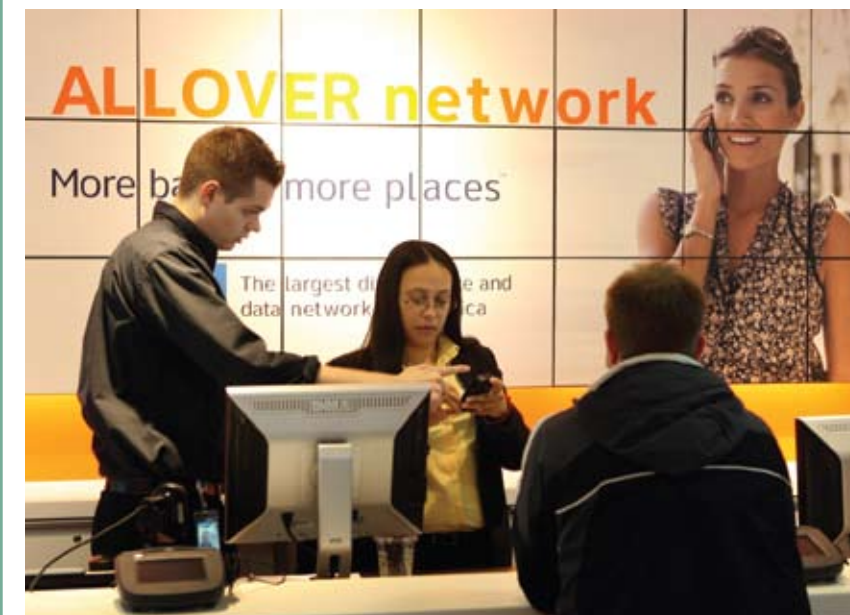
At the beginning of the western, the trail master went through each wagon and started throwing out all the unnecessary items – fancy dresses, shoes, a piano, heavy furniture – to ensure a faster, safer journey and to conserve space for the necessary items (like nails, pails, shovels, seeds, livestock and tools) they needed to build a new life. A portfolio that is weighted down by a bunch of retailers, financials and highly leveraged, poorly managed companies is going to have a hard time making it through the territory. The next issue of FIM Group's *Current Observations* will review our plan to get through the territory. We will discuss the reasons why we like health care, energy, dividends and other income investments. We will also explain why we think that the road to recovery in the U.S. will be very slow and why we believe that inflation is a big threat that is supported by \$23 trillion reasons. We will make the case that short-term interest rates could remain very low for quite some time despite inflation.

A few years ago my family went on an adventure to the Galapagos Islands. Darwin's theories had their genesis in the Galapagos, and I will leave this essay with a quote from Darwin. "Nature teaches us that it is not the strongest of the species that survives. It is the one that is the most adaptable to change." Getting through the territory will take intellect and strength of character, but these qualities will have little value if they are not combined with flexibility.

Investment Spotlight : AT&T

AT&T Wireless is an icon in the world of mobile phones. With wireless penetration closing in on 100% and expected to go well above with consumers owning more than one mobile device, AT&T is positioned to be one of the leaders in a consolidating industry. Recent second quarter 2009 financials indicate a significant stronghold in a commoditized industry. AT&T had the lowest churn (loss of customers) in the history of the company – with just 1% leaving in 2009 – while growing their monthly subscriber base by 1.4 million to a total of 79.6 million customers. With the exclusive on the iPhone, they were able to increase data usage by 37.2%, which, in turn increased the average revenue per subscriber to \$60.21 per month. The release of the new iPhone 3GS in June, AT&T sold 2.4 million units as the fastest and most powerful smartphone available today. Sales of the iPhone drive strong recurring revenue and substantial long-term growth with subscribers.

FIM Group is buying AT&T for suitable portfolios based upon its global presence, innovative products and services, strong balance sheet and solid free cash flow. They have implemented a strong cost discipline across operations helping pay more than \$4.8 billion in dividends in the first half of 2009. Currently AT&T cash dividend yield is 6.4% at \$26.00 per share.



AT&T : www.att.com

- TICKER SYMBOL: T
- Listed on the New York Stock Exchange
- Eighth on the Fortune 500 and one of the 30 stocks that make up the Dow Jones Industrial Average



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Labels and the Madness of Crowds

By Barry Hyman, MBA

The world's stock markets seem to have hit an air pocket . . . panicked sellers are turning into optimistic buyers, and the beat goes on. In the world of investment speak, the chatter has reverted back from discussions about the Great Depression and economic Armageddon, to what is in favor and systematic investing strategies, or more accurately, black box substitutes for the work of security analysis. Examples include debates on benchmarking to indices, whether or not markets are efficient, "growth" vs. "value," etc. The general conversation can be boiled down to the question of how to measure investment success.

Let's start with the concept known as the Efficient Market Hypothesis (EMH). From my experience, I suspect the vast majority of investment professionals believe this theory to be the financial gospel. It states roughly that all the participants in "the market," combined as a group, possess the sum total of all available knowledge, and therefore, on average, all securities are priced "correctly." The corollary to this theory is that because the market is efficient, security selection is virtually irrelevant. It goes on to suggest that the costs associated with active management put such approaches at a disadvantage, and therefore, investors should buy passive baskets of investments, such as indexes and exchange-traded funds, and hold them regardless of their prices.

If it were the case that markets price everything accurately, how could the cumulative market value of all of the stocks in the market rise hundreds of percentage points in a few years, during which the book value, net asset value, sales, profits or cash flow of the companies

that comprise the market rise only a few percent? By the same token, how could it be that entire sectors, and even entire markets, fall in price by 40% or 50% or more over a short period, during which the aforementioned measures of intrinsic value do not drop by much, or in some cases even rise? Does this seem like the market efficiently (i.e., accurately) prices the value of securities?

This is not just a trivial discussion. Massive wealth changes hands based on these theories. People have been awarded Nobel prizes for concocting and "proving" such theories. Trillions of dollars have been invested based on them, and I am sorry to say trillions have been permanently lost, the main cause of which stems from the rather simple error of paying much more for investments than they are worth.

On the other hand, there are time-proven fundamentals – available to any investor willing to diligently apply them – that have helped some of the greatest investors of all time. These principles enabled Benjamin Graham, John Templeton, Warren Buffett and have helped FIM Group to achieve favorable long-term returns even during difficult environments. For example, during the period from 1966 through 1981, during which the Dow Jones Industrial Average began at 1,000 and ended at 1,000, Templeton earned investors more than 1,100%! Within that 16-year period he had five losing years, but his losses were not permanent, because he simply refused to overpay for securities, added to his positions when the market pressured their prices, then sold when "the market" (i.e., other investors) propelled the prices of his positions toward fair value.



"If you want to have a better performance than the crowd, you must do things differently from the crowd."

– John Templeton

Templeton found bargains by looking outside the mainstream. He invested in companies in Japan when it was still considered an emerging market; he bought Canadian real estate companies that American investors had never heard of; he bought companies in Peru in the 1980s; etc. Some of his guiding principles to determine intrinsic value were: PE ratio; operating profit margin; liquidation value; earnings growth rate; flexibility; and "don't trust rules or formulas." And these are some of the many principles that guide FIM Group's investment policy.

On the subject of rules and formulas, and I would also add "labels" to that list, one classic set is "growth and value." There is an age-old argument as to which is superior. So-called "growth" investors are willing to pay a premium for companies whose reported earnings have grown at

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a faster rate than the overall market, and thus are expected to continue to do so. As a result, growth investors tend to pay more relative to the book value or earnings of a company than so-called "value" investors.

But to pigeonhole oneself by a label is self-defeating. All investors want to make money. Serious investors don't even go into this debate. Banks have low price-to-book ratios and look like great values, but what is their book really "worth," especially given all the toxic debt many are still straddled with? For many years their earnings cranked up year after year based on their ever-ballooning use of debt and leverage. Should growth investors have bought banks? Should value investors buy them now? How about Microsoft? It has very little

book value, so it would never qualify for purchase by a so-called value investor. But what are its cash flow, patents, competitive position and franchise worth?

Serious investors aspire to own well-managed, forward-looking, ethical companies with good products and services, solid balance sheets, and good prospects in sustainable industries *bought at great prices*. To even analyze if an investment is growth or value is a serious waste of time. The whole company and the price paid for that investment are what matters, not some label.

During some markets one approach outperforms another. But such superiority generally reverts to the mean in the subsequent period. Indexing was all the rage until the tech-driven crash of 2000-

2002. Then other passive approaches, such as the proliferation of exchange-traded funds (ETFs), became extremely popular, leading up to the crash of 2008. In the long run, investment success should not be judged by how a specific system or label works over a relatively short period. Nor should it be judged by how well one has done relative to some index or subjective benchmark. Investment success should be judged by whether the approach achieves an investor's long-term objectives (based on their situation and not on an arbitrary index) and whether permanent capital loss is avoided. In our efforts to achieve these objectives, FIM Group adheres to a disciplined, yet flexible, approach of valuing every security, holding only those trading at prices below their intrinsic values and remaining unattached to any system or label.

Investment Committee Brief

By Paul Sutherland, CFP®

Friday, July 24, 2009

This last week we reduced risk across all portfolios as we sold off some names that were at prices that were good sell points.

We also sold off some of the less liquid positions that had had a nice bounce this year and had good liquidity to sell into. We prefer more concentrated positions, and we will continue to move away from smaller positions that infiltrated our management the last few years.

Our holdings are benefiting from the run-up and luckily we are in the stronger groups and not in the weaker areas. Financials, transportation and retailers, for example, are not heavily owned by FIM Group. I think we are going to have a **long wait before we get to a recovery**, so we will see the economy be weak but muddle along at a new lower, slower pace. We will collect our dividends from groups that are in the "gotta have" areas of energy, health care, food, etc., in addition to the more economically sensitive areas that have good balance sheets, pricing power and leverage to an economy that doesn't fall off the cliff.

\$23 trillion in stimulus will cause economic dislocation and most likely will affect food, energy, commodities and health care – to go up in price – I do not think retailers, real estate or wage earners are going to benefit from the monetization of the spending in Washington in this inflation cycle. So the market will be a bit lumpy, but there will be money to be made.

The environment I am forecasting does not play to indices or indexes or index funds, which are basically going to own everything. The S&P indices are all up less than 6% for the year, which I think is logical based on this lumpy recovery thesis which I believe is best case. There are 50,000 stocks to own, and most indexes and funds own the larger 1,000 of them – so lots of room for stock picking.

Paul

Efficient Market Hypothesis states that it's impossible to beat the market; that all stocks trade at their fair values.