



Have the Rules of Investing Changed?



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The New York Credit Union Foundation Workshop
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Background about w!se



- One of New York’s Largest Educational Not for Profits
- Leading provider of programs for secondary schools designed to:
 - build financial literacy
 - foster business and social entrepreneurship
 - prepare students for college and the workforce
- Our programs are built on five pillars – relevancy, real world experiences, partnerships, volunteerism and strong outcome assessment and impact analysis
- Our programs are national and international in scope. We reach 50,000+ students and support 500,000 hours of instruction each year.



Financial Literacy Certification Program



Goals:

- Increase the financial literacy of HS students
- Measure personal financial knowledge
- Influence financial behavior by instruction

Structure:

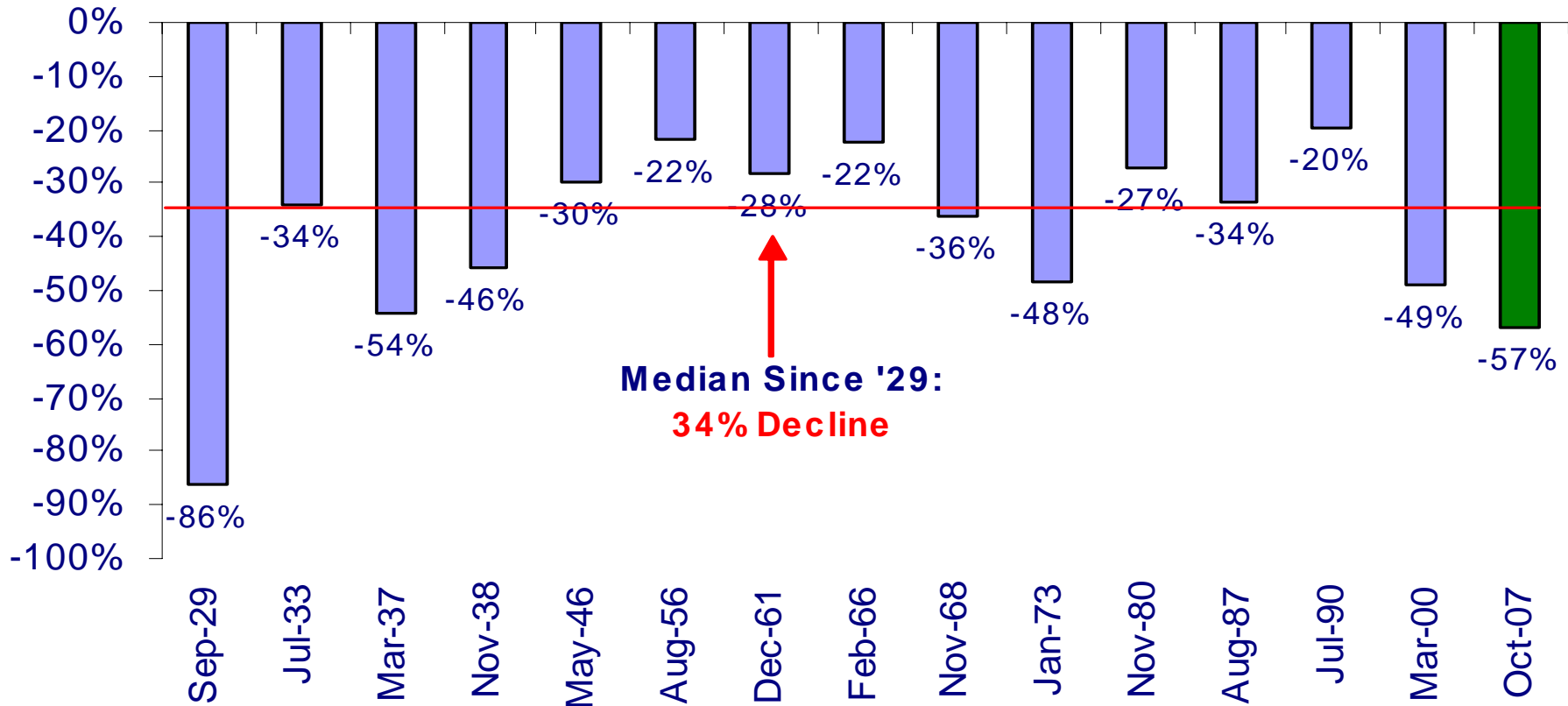
- Schools teach personal finance
- w!se provides technical assistance/training, instructional resources, standardized assessments and recognition
- Students who pass w!se's Certification Test become Certified Financial Literate

Scope:

- Teachers of economics, business, business math, personal finance, family and consumer sciences or equivalent disciplines
- Unit, full semester or full year* course; High school students (9th – 12th)



Worst S&P 500 Bear Market Since the 1929 Crash



Source: Standard & Poor's Equity Research. Indexes are unmanaged, statistical composites and their returns do not include payment of any sales charges or fees an investor would pay to purchase the securities they represent. Such costs would lower performance. It is not possible to invest directly in an index. Past performance is no indication of future results.

Foundation of Modern Investing



Markets are Efficient (EMH)

Market Prices, at all times, rationaly incorporate all known information and, therefore, follow a random walk, reacting to each new piece of information as soon as it becomes publicly available.

Implications of Efficient Markets Hypothesis



The pattern of returns in financial markets follows a normal “bell curve” distribution.

Risk can be defined by the extent to which securities prices vary around their long term historical averages.

How securities prices move in relation to one another allows for a precise and measurable trade off between risk and return.

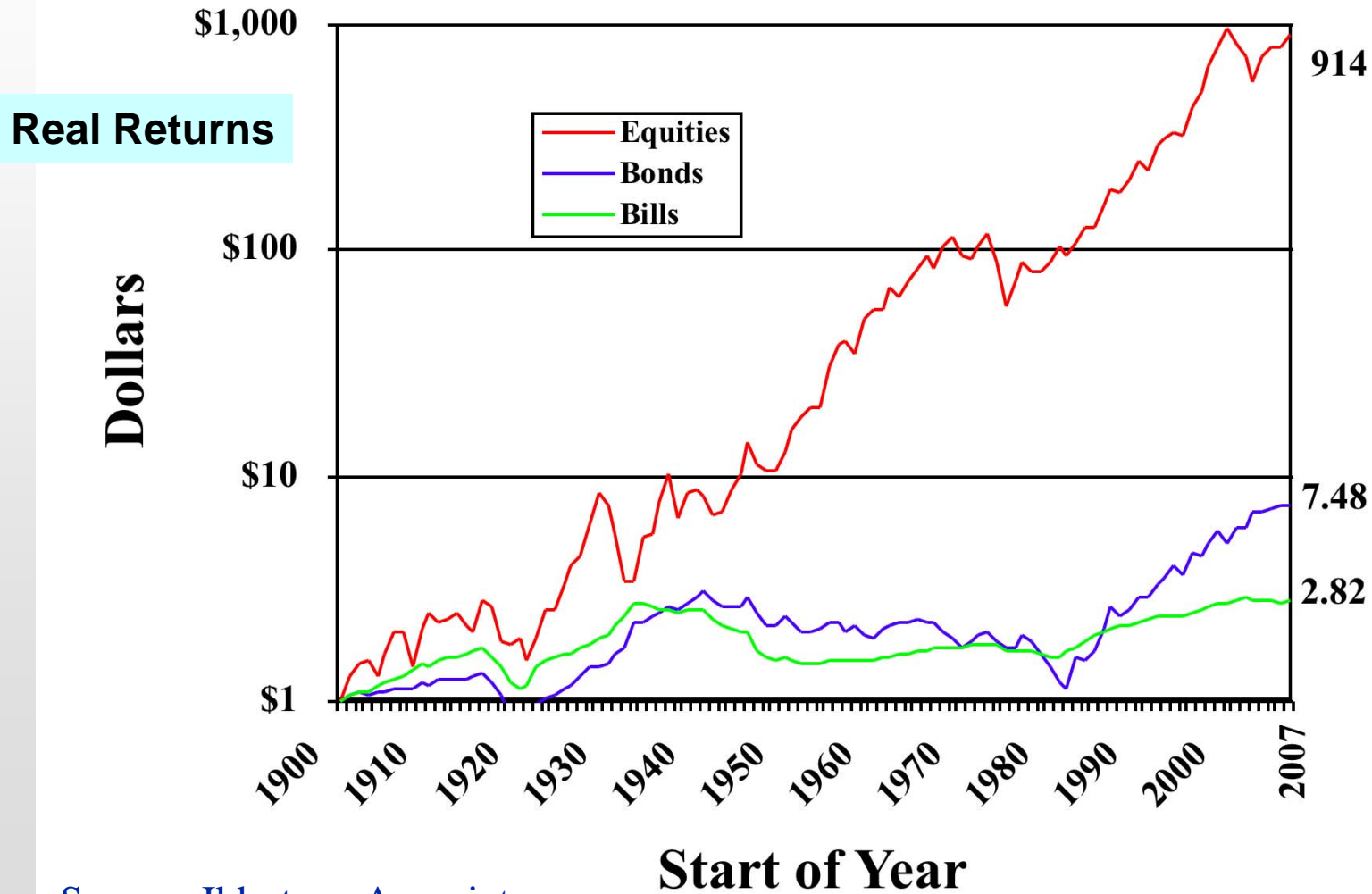
How the Efficient Markets Hypothesis Influenced Investing



Asset Allocation: Equities will outperform other assets in the long term because they carry higher risk.

Diversification: Add an asset to a portfolio that will move up when others move down and you have made it less risky.

The Value of an Investment of \$1 in 1900



Source: Ibbotson Associates

What went wrong?



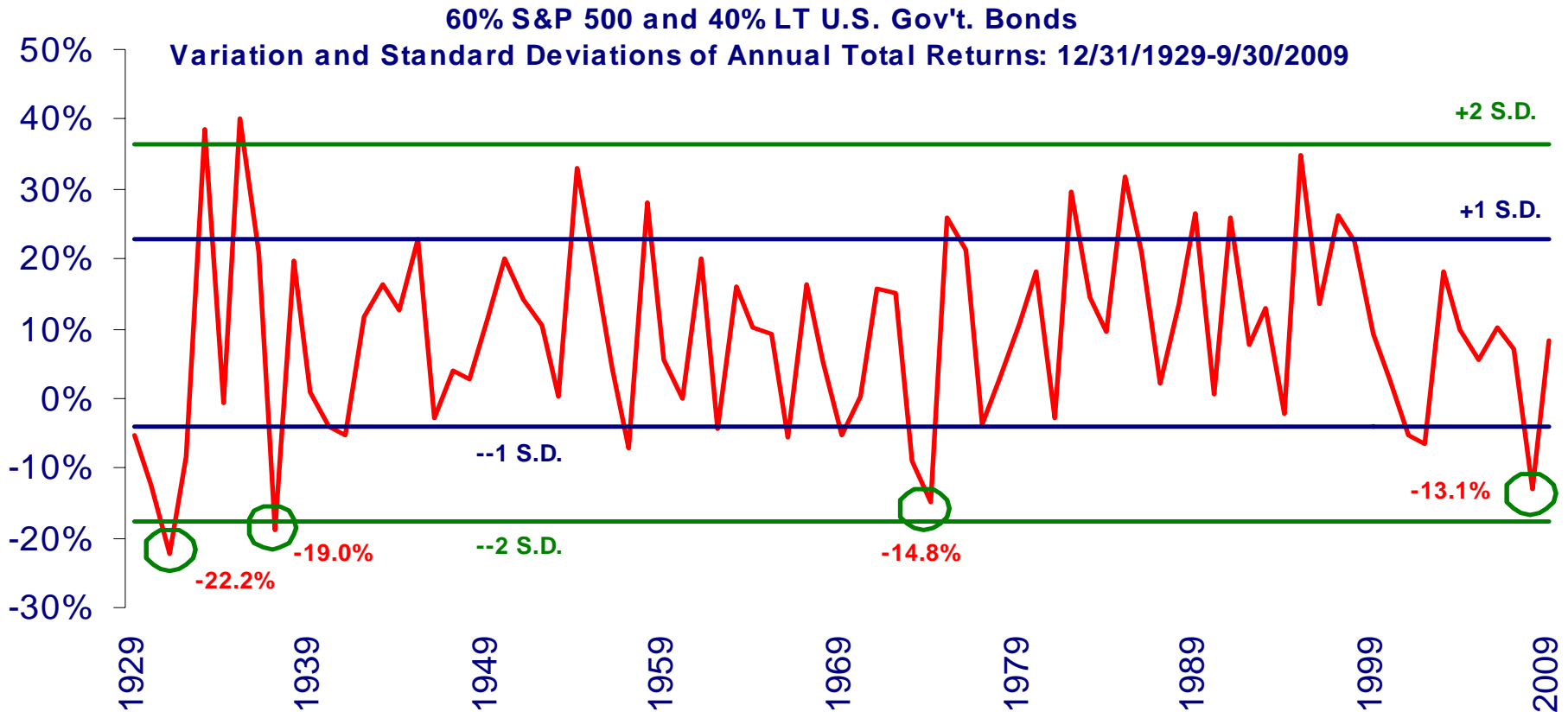
Market returns do not follow a normal bell curve.
Extreme events happen much more frequently
than a normal distribution would imply.

Investors do not always make their
decisions rationally.

Correlations between asset classes change
in extreme circumstances.

Source: The Financial Times

Did Diversification Fail During This Bear Market?



Source: Standard & Poor's Financial Communications. Indexes are unmanaged, statistical composites and their returns do not include payment of any sales charges or fees an investor would pay to purchase the securities they represent. Such costs would lower performance. It is not possible to invest directly in an index. Past performance is no indication of future results.

Did Diversification Fail During This Bear Market?

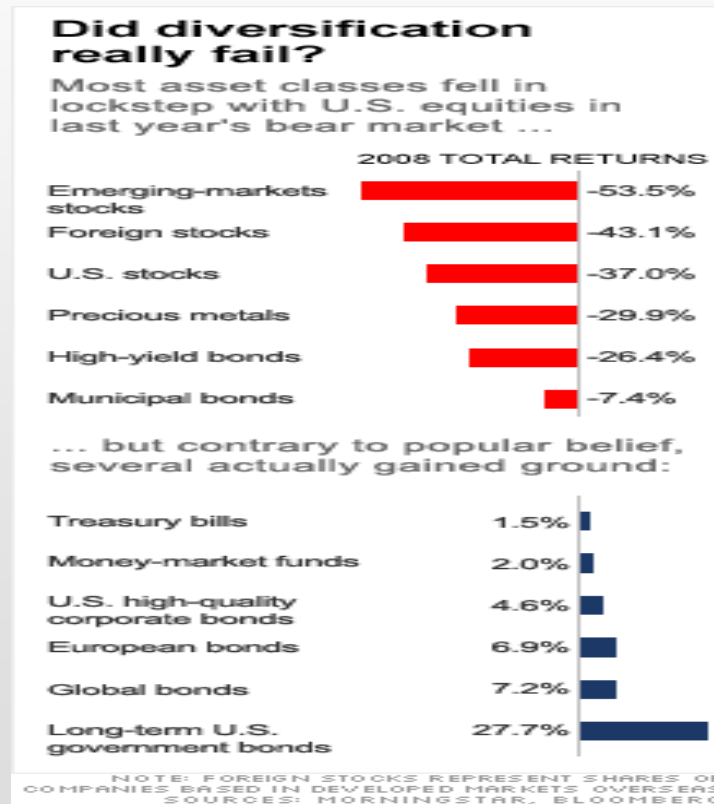
Comparison of Oil Prices and the DJIA (2006-2010)



Source: Yahoo! Finance

Did Diversification Fail During This Bear Market?

Comparison of asset price returns in 2008



Source: CNN

Has the Financial Crisis Changed the Rules of Investing?



1. Liquidity Matters – your home is not a fungible or tradable security!
2. Your home also won't make you rich – real estate does not earn 10% year after year after year on average!
3. Risk doesn't disappear just because the threat of a decline in asset prices seems unlikely.

Source: Money Magazine, March 2009

Has the Financial Crisis Changed the Rules of Investing? (2)



4. Cash is for more than “typical” emergencies
– emergency funds should cover asset emergencies as well!
5. Borrow cautiously rather than using leverage to seek higher returns!
6. Don’t focus on retiring early. Building that nest egg takes time!

Source: Money Magazine, March 2009

Has the Financial Crisis Changed the Rules of Investing? (3)



And the Conclusion is

Maybe the rules of investing
have only changed for investors
who didn't follow them in the
period building up to the crisis!!

Some Lessons to be Learned (according to the pundits)



Lesson 1: Asset Allocation works – but it doesn't always work.

“If vaccines don't work for swine flu, it doesn't mean you shouldn't vaccinate for other types of flu” (John Campbell, Harvard University)

Source: CNN

Some Lessons to be Learned (according to the pundits)



Lesson 2: Diversification still matters, but real diversification can be harder to achieve than it looks.

“A portfolio containing a large cap stock fund, a mid-cap stock fund, a small cap stock fund, an international stock fund and company stock is not really diversified at all”
(consumer commentary .com).

Source: CNN

Some Lessons to be Learned (according to the pundits)



Lesson 3: Recognizing an asset bubble is hard. Hedging against one is harder.

“To spot a bubble in advance requires a judgment that hundreds of thousands of well informed investors have it all wrong”
(Alan Greenspan)

The sure hedge? A healthy dose of cash!

Some Lessons to be Learned (according to the pundits)



Lesson 4: Tune down the TV!

Remember - the herd is eventually led to the slaughterhouse.

Source: CNN



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Thank You!

