CLIENT COMMUNICATION

You're Not Alone!

Ann Terranova, CFP ™
aterranova@ufpartners.com

I know you are worried about falling portfolio values, but you are not alone! The largest endowment funds in the world are experiencing unprecedented market losses. What can we learn from the experiences of some of the most highly regarded investment managers on the planet at Harvard, CalPERS and Yale?

The Harvard Endowment Fund lost $8 billion or 22% in only four months of 2008. A Letter from the President to Harvard's deans said the 22% loss understates the actual decline because it doesn't reflect assets whose values couldn't yet be estimated. And that was only four months.

CalPERS, the largest US public pension fund, disclosed in a statement on its web site that its assets declined by more than 20%, or around $50 billion, from June 30 through October 10 of 2008. That statistic does not include the big market drop in November, continuing into 2009.

Yale Endowment Fund's value declined $5.9 billion or 25.8% from June 30, 2008 ($22.9 billion) to December 15, 2008 ($17 billion). During that same time, the S&P 500 Index fell 28.8%. President of the college, Richard Levin, told the Yale Daily News "We are less hard hit than some other institutions. That's because of the excellent management of our endowment by David Swensen."

What was the college's response to falling securities prices? Levin says that they put any new construction projects on hold until "we can either raise the money or we can get access to debt markets without jeopardizing our credit rating." They cut non-staff budget items by 5%. Everything in the budget was reduced except hiring. The college considers the current unemployment situation a major recruitment opportunity.

Finance Committee Chair, Len Baker, says that investment valuations are deflated currently because some investors are selling securities at discounted rates. He said "Prices are determined by the people who have to sell, not by the people holding securities. So you can have one distressed person who is willing to sell the security for next to nothing, and everyone's worth gets marked down." He continued, "In the long-term, the financial crisis could end up benefitting Yale. Swensen and the entire Yale Investments Office are looking for good investment opportunities in the current climate."

Yale Endowment Fund maintained their investment positions. The fund was not transferred to cash in June before the big decline, nor was the fund moved to cash 'while things settle down.' They know that this is a losing strategy. Rather, these managers are looking for good investment opportunities that are available now because the current economic climate has depressed prices.

There is a huge transfer of wealth that happens when the stock market falls. People see their investments fall in value, they see the value of their retirement accounts go down and they get scared. This fear leads to massive amounts of distress selling. The people and institutions that represent the wealthiest among us see the fall in prices as buying opportunities—the big money picks up big bargains. This is partly how the rich get richer while average people struggle to get ahead.

If you want to stay wealthy or you want to become wealthy, you have to act the way wealthy people and institutions act. It might help to know that they are experiencing the same (or even worse) investment returns that you are. And they are looking for opportunities.

"Inactivity strikes us as intelligent behavior."

-Warren Buffet

"How do the 'rich get richer'? They buy stocks very cheaply when other people sell in a panic."

"If you want to give money to Harvard and Yale, write them a check. If you sell your stocks, you will be giving them money for the rest of your life."

--Ann Terranova, CFP ™

Union Financial Partners
2001 Union Street
Suite 540
San Francisco CA 94123
Phone: 415-563-3000
Fax: 415-563-1175
E-mail:
aterranova@ufpartners.com