TERRY HILL & ASSOCIATES

# News from the Hill

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## Latest Lessons Learned

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**Please feel free to share the content of this newsletter with anyone whom you feel it might help.**

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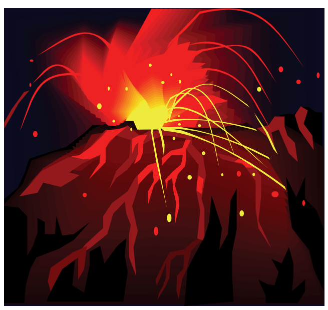
**"It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so." –Mark Twain**

Before getting into detail on those lessons, here's a quick recap on the first quarter.

Markets* in January and February 2011 saw a continuation of last year's positive sentiment. This was spurred by solid corporate profits and a broad consensus that while the global economy might not experience a strong recovery going forward, it would see growth.



March did see a setback. The earthquake and tsunami in Japan on March 11, which took a dreadful toll on human life, have also clearly reduced short-term prospects for the global economy. The turmoil in North Africa, while positive for oil prices, also had a negative impact on markets due to concerns about the effect on consumer demand.

Notwithstanding this, developed markets* generally saw gains at the end of the first quarter that put them on track for solid performance in 2011. Of note, results outside of the U.S. were boosted by the weak dollar. For example, first-quarter gains in Europe were 6% in dollar terms, 2% in local currency.*

### Learning to Live With Uncertainty

If they operate efficiently, stock and bond markets incorporate all the available information at a given point in time. That's why, when sovereign debt problems emerged in Greece early last year, other European countries seen as having potential problems along the same lines saw an immediate spike in the cost of insuring their debt. Even though they hadn't run into problems yet, the market factored this possibility in.

Market analysts spend many thousands of hours each year by looking at these kinds of issues—with enough time and research, slow-forming problems like government debt issues can be analyzed beforehand.

What can't be anticipated are developments that are by their nature unpredictable. We've had at least four such events in the past year:

- Last April's volcanic eruption in Iceland that spewed ash in the air, shut down 100,000 transatlantic flights, and cost the airline industry $2 billion.
- Also last April, the explosion of the Deepwater Horizon oil rig in the Gulf of Mexico.
- Commencing in December, street protests resulting in changes of leadership in a number of countries in North Africa, leading directly to the current military action in Libya.

- And, of course, the earthquake, tsunami, and nuclear-reactor crisis in Japan.

In light of episodes like these, investors need to take away two key lessons.

### Lesson One: Expect the Unexpected

The only way to deal with uncertainty and manage the impact of unforeseen events is to build strict risk controls into portfolios, similar to those used by the most sophisticated pension funds. While the risk of one-time incidents can't be eliminated, though diversification and risk management may be able to limit the damage when negative events occur—whether they be massive frauds such as Enron, sudden bankruptcies like Lehman Brothers, volcanic eruptions, oil rig explosions, or earthquakes.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.

### Lesson Two: Avoid Overconfidence

Aside from the time entailed,

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# Lessons Learned Continued

there is one big negative to the risk-controlled approach to portfolio construction: in the short term and midterm, there will always be someone who's made a big bet that has paid off and who is doing better than you as a result. Because it eliminates big bets, a risk-controlled approach to investing will seldom give you bragging rights on the golf course.

Investors who take the big-bet approach typically have a high degree of confidence in their investments; after all, if you're absolutely certain about a company or industry, why bother to diversify? On the other hand, research by the University of Chicago's Richard Thaler has demonstrated that overconfidence is among the most costly traits an investor can have.

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Look no further than the many employees in the Silicon Valley during the tech boom. They were 100% confident about the future of their firms and often had all of their retirement accounts invested in the companies they worked for as a result. These investors saw sterling results for a while—right up until the tech bubble collapsed.

The quote from Mark Twain at the start of this letter says it all. The sources of trouble aren't the things we've identified as question marks and causes for concern. Rather, what causes portfolios to crater are the things that we're absolutely positive about right until unanticipated occurrences catch us by surprise.

We've always had unexpected events and always will. And despite these unforeseen events, economies have grown, companies have prospered, and stock markets have generated positive returns. The key to benefiting from this long-term growth has been to diversify so that no single event can create permanent damage to your portfolio.

I believe that we will work through the recent events and those investors with a balanced approach and a long-term view will be well rewarded. The approach to risk management I've described may not be fun or sexy in the short term, but all the evidence at hand suggests that over time it will serve you well, getting you to your goals with the least amount of stress and distress along the way.

As always, I thank you for the opportunity to work together.

*As measured by the MSCI index

## Just for Fun

**Today's Stock Market Report**

Helium was up, feathers were down.

Paper was stationary.

Fluorescent tubing was dimmed in light trading.

Knives were up sharply.

Cows steered into a bull market.

Pencils lost a few points.

Hiking equipment was trailing.

Elevators rose, while escalators continued their slow decline.

Weights were up in heavy trading.

Light switches were off.

Mining equipment hit rock bottom.

Diapers remained unchanged.

Shipping lines stayed at an even keel.

The market for raisins dried up.

Coca Cola fizzled.

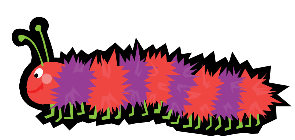
Caterpillar stocks inched up a bit.

Sun peaked at midday.

Balloon prices were inflated.

Scott Tissue touched a new bottom.

And batteries exploded in an attempt to recharge the market.



♦

"There wouldn't be a sky full of stars if we were all meant to wish on the same one." **Frances Clark**

♦

"It's not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change." **Charles Darwin**

♦

"Happiness resides not in possessions and not in gold; the feeling of happiness dwells in the soul." **Democritus**

♦

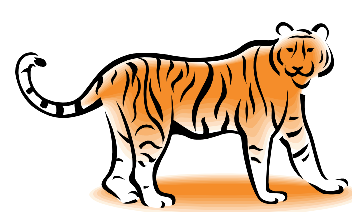
It is estimated that a plastic container can resist decomposition for as long as 50,000 years.

♦

Extremely high pressured water can easily cut through a steel beam.

♦

Not only is the fur of the tiger striped, but also its skin.



## Terry Hill Named *Texas Monthly* 2011 Five Star Wealth Manager

It was announced this month by *Texas Monthly* that local financial advisor, Terry Hill of Terry Hill & Associates, a community based business located in Highland Village, Texas, was selected by local area residents representing approximately 1 in 5 high-net-worth households as a 2011 Five Star Wealth Manager.

Consumers indicated that it is difficult to find a wealth manager they trust and rely on. With over 20,000 different wealth managers in the Dallas/Fort Worth area, how do you find a wealth manager you can trust to help you work toward your financial goals? The Five Star Wealth Manager selection process included distributing surveys to households as well as some service industry experts asking them to evaluate wealth managers on criteria including customer service, integrity, knowledge/expertise, communication, value for fee charged, meeting of financial objectives, post-sale service, quality of recommendations and overall satisfaction. Only wealth managers with at least five years of experience were considered and those selected in the top represent less than 3% of wealth managers in the Dallas/Fort Worth area.

## What Makes People the Happiest? Clue, It's Not Money.

**Does more money make people happy?** Scientists are currently exploring that question and the results might surprise you. As a financial advisor I became interested in the new science of happiness since the main reason people come to me for financial advice is because they want help in making decisions today that will help them to create a better future. I wanted to see how I could help my clients make better **decisions that would create more happiness** now and in their future. As I learned more about the science of happiness, a couple of interesting things happened. First, I became very passionate about the topic. Second, I realized that contrary to conventional wisdom, everyone has a different idea of what happiness is.

The challenge is that most people don't even know what will make them happy and fulfilled. So they chase money instead hoping that if they get enough of it they will become happy. Unfortunately, that strategy never works. That is where positive psychology, or the science of happiness comes in. **Researchers have discovered that getting rich will not make you happy.** However, getting in touch with your authentic self and your vision of an ideal future and then aligning your life with your vision will, indeed, make you happy.*

In his book *Authentic Happiness,* Dr. Martin Seligman past president of the American Psychological Association, notes that happiness is not the only endeavor that is an end in itself. Once human beings meet their survival needs, they turn their energies to the pursuit of happiness. **Everything they strive for has only one goal**—to put them in the positive emotional state of happiness, contentment and fulfillment.*

In terms of happiness, my goal as an advisor is to help define my client's visions and aid them in developing a plan to achieve their dreams and aspirations. As an example, I am reminded of the story of a future client who stopped by a financial advisor's office looking very anxious. He dropped a stack of papers on the advisor's desk and said, "I need to know if I have enough to retire. What's my number?" The advisor thought a minute and pushed the papers aside and asked, "What do you want to do when you retire? How are you going to spend your life?" Looking confused, the potential client said, "I have no idea." "Well," the advisor said, "in that case the amount of money on this paper has no meaning. We need to decide what you want to do, what makes your heart sing and what you are passionate about. After that, we can set up a plan." The man responded by saying, "Thank you. This has been the most important meeting I've ever had."

In this example, the above client realized that it was not numbers and graphs that were important but the most important thing was what he wanted to do with his life. Unfortunately, most people don't know what these elements are.

So what can we do to get us on the right track to determine what makes us happy? Here are a couple of ideas:

First, define and integrate the following three key elements in your life.

1. **Your purpose:** This includes what values are most important to you and what your empowering beliefs are.
2. **Your passions:** These are things that you are vitally interested in and make you feel fully engaged in life.
3. **Your personal strengths:** These include natural talents, learned skills and the attitudes that make you successful.

If you have trouble getting started on this try the following exercise by answering this question: **What do I want my final epitaph to say?** Another interesting question to ask yourself is: If you only had six months to live, what would you probably do with your time? These are really powerful exercises that should give you some clues to get you started.*

I hope these ideas that I have shared with you will help you to get started to identify what makes you get up in the morning and what puts passion and meaning in your life. When I think of the science of happiness, I am reminded of something one of my high school teachers said to us in class one day. He said, "You know it's not money, it's not gravity or physics that make the world go round. What really makes the world go round is the pursuit of happiness." I suspect that the founders of positive psychology would agree with him.

*Moeller, Steve. "Second That Emotion." *Investment Advisor*. September 2003: pp. 120-121

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**www.TerryLHill.com**

**We would like to take this time to thank all of you who have given us the opportunity to help your family, friends and colleagues. Thank you for the introductions; we always appreciate the chance to help.**

## Strategies to Help Business Owners

Not many business owners want to think about the time when they will have to hand over control of their company to someone else. For most business owners, their time is spent on running their business and keeping it successful. Being a business owner entails many different responsibilities to your business, as well as to others, such as your employees, customers and family. Some of the questions you should be asking yourself are:

- What will happen to my business if I die?
- What will happen to my business if I become disabled?
- What will happen to my business when I retire?
- What will happen if certain key employees die or leave the company?
- What can I do to help ensure that my most vital employees remain loyal to the business?
- What do I need to do to attract and retain the best employees?
- What can I do to help ensure that my business will be able to weather unforeseen hardships?

Vital to any small business is long-term security and succession planning, this enables you to manage the transition of your business to future owners and management. One of the first things any business owner needs to consider is how to protect against events that may threaten the future of the business, like the death of a proprietor, partner or key employee.

To preserve the value you have created, it's important to plan for the orderly transition of ownership.

In many cases, your business represents one of the largest and most important assets that you own. Consequently, developing a succession plan or exit strategy is a key planning issue facing you and your business. A well structured succession plan protects you, your family and your employees.

Source: LPL Financial Insurance Associates. "Taking Care of Business" Tracking #562999.