LAWSON KROEKER
INVESTMENT MANAGEMENT

As We See It

Can rallies in energy, real estate, and gold continue? Stocks have shown positive returns for most of the past three years, is now the time to consider more bonds? Should bonds be avoided because of inflation fears and growing budget deficits which may limit future gains? Are small cap stocks running out of steam? Is it time for large cap growth stocks to make a comeback?

Those are all interesting questions. If we knew the answers, our clients would have it made. There is a lot of guesswork in trying to predict the future; going too far out on a limb in any direction can cost you dearly. Fortunately, we don't think you need to answer those questions to be a successful investor. Once you have stopped playing the game of trying to figure out whether stocks are going to outperform bonds or vice versa, you can focus on your personal circumstances to determine how much of each you should own. Remember, there is no single correct answer; the goal is to find a comfort level that is right for you. Your investment management program should produce investment results that best fulfill your objectives. In the terminology of economics, the goal is to maximize the *utility* of the investor.

Three basic concepts of investor utility—introduced by the mathematician Bernoulli in 1738 —are still the basis of most methodologies of money management. The first concept is that investors prefer to earn more return on their investments rather than less. The second is that investors prefer less risk to more risk, although they may have difficulty describing exactly what risk is. The third is that investors exhibit decreasing marginal utility of wealth; that is, if someone is wealthy enough to own four houses, gaining the wealth to buy house number five is less important than gaining the wealth to buy the first house.

The nexus of an investment plan that meets an investor's objectives usually centers around *risk*. Your acceptance of risk revolves around how well you sleep at night. If daily or monthly changes in the value of your portfolio keep you awake, your asset allocation will be different from the investor who checks his portfolio value annually. One's ability to accept risk also centers on the goals you hope to achieve with your portfolio and the length of time you have to keep your money invested. Investing for the short term normally leads you to think safety first; but, if you are investing for an event in the distant future, a greater acceptance of risk creeps into your outlook.

The ultimate goal of most investors is not merely to accumulate wealth, but to accumulate sufficient wealth for future consumption. If consumption needs are modest, consumption is deferred to future generations or bequests to charitable organizations. Family circumstances and lifestyles evolve over time. The resulting changes require adjustments between returns obtained and risks taken. Investing too much (or too little) in stocks may severely impact your ability to meet your objectives. We feel it is important to try to come to terms with your situation and goals. There are no easy answers, but time spent on this issue will probably do more good than time spent trying to figure out if tech stocks are about to catch fire again.

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