FOUNTAIN FINANCIAL ASSOCIATES

VOL. 13, ISSUE 2 BUILDING LONG TERM RELATIONSHIPS THROUGH KEEPING PROMISES FALL 2012

Inside:

Are you receiving periodic email updates from us?

If so, great! We welcome your feedback. If not, please call us at *910-256-8882*, or email Dana at *dana@fountainfinancial.net* to update your email address.

Courage Rewarded … Again

KEEPING PROMISES
by Vinton Fountain

Do not ever, ever surrender to panic and jump out of a good investment plan

In late February 2009, I received a call from a mentor who has earned my utmost respect and admiration. This individual has experienced tremendous personal and business success and could be a model for all people. His message was simple. He said, "It is time to get out of the market." I was shocked due to my preconceived notion that he would never surrender to any crisis and the typical panic that follows. But he was shaken by the day's events and was testing my resolve. He told me that most advisors were suggesting to clients that they move their assets to safer places, like cash or bonds. He, like many people, was on the verge of the single largest financial mistake of his lifetime.

This conversation took place 43 months ago. Later that same year, the European debt crisis ignited a dramatic global credit crisis that remains today. Those people, who had not panicked in the US financial crisis mentioned above, sold their assets to avoid daily catastrophe in the EU. To make it even worse, the NYSE experienced a "flash crash" that created panic on top of panic. Subsequently, more investors, and apparently weak advisors, dumped their investments for less volatile assets such as cash or government bonds.

In the spring of 2011, the markets were traumatized yet again with the fiscal debt ceiling debate. Confidence in our markets, culture and future was questioned in front of the world on 24-hour cable, seven days a week. What happened next should not surprise us. The markets sold off again as the last small group of investors lost faith and retreated to "safety" (ironically, to US Government bonds that had been downgraded). This event flushed out the last group of investors and converted them to speculators. It is a mistake is to sell quality long-term assets at short-term panic prices.

On a happy note, I am pleased to report that as I write today, the individuals that understood the difference between risk and volatility are enjoying the rewards of their courage, judgment and instincts. The world, yet again, inexplicably failed to end. So what happened to those that did surrender? Unfortunately, those folks reduced the value of their assets at the worst possible time, only to watch the predictable rebound that now stands at more than a 110% increase from the bottom. And here is the worst part of all: the same people that sold out for safety at the bottom are likely to dive back in at the top. When they do, they will be purchasing at higher prices than at which they sold. It works just as John Templeton said: "To buy when others are despondently selling and to sell when others are avidly buying requires the greatest fortitude and pays the greatest ultimate rewards."

Some individuals (and advisors) did not panic or surrender to the aforementioned behavioral cycle that threatens financial independence, successful retirement income, and levels of confidence. Consider what Warren Buffet did in the midst of the crisis. He bought, not sold, a $5-billion investment in a large financial services business on the edge of bankruptcy. He receives a 6% coupon (interest payment) and has the option to purchase seven hundred million shares at a fixed price until 2021. This action is hardly a pessimistic view of the world. For those that like numbers, Buffet's investment record is as follows, and I quote, "over the last forty-seven years (when he took over Berkshire Hathaway), our book value has grown from $19 to $99,860, a rate of 19.8% compounded annually." You

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Gilded Tulips, Anyone?

by Matt Dennis

People find a good bubble hard to resist. From internet stocks to flipping houses, the urge to jump at easy money is a constant temptation. For the first time in decades, late-night infomercials, radio ads, and even respected talk shows are routinely touting the benefits of gold. The gold proponents' pitches range from hard sales tactics, to in-depth (and sometimes obscure) analysis, to outright blind support. It can be difficult to find logic in all of the noise. After all, the discussion is not about a company, or real estate, or bonds. It is about a commodity, more specifically, a metal.

While equities have many variables, commodities are generally uniform. A tulip is a tulip, a barrel of oil a barrel of oil, and an ounce of gold an ounce of gold. Warren Buffett states: "Gold gets dug out of the ground in Africa or someplace. Then we melt it down, dig another hole, bury it again and pay people to stand around guarding it. It has no utility. Anyone watching from Mars would be scratching their head."[1]

The following anecdote is not meant to imply that the rise of gold prices constitutes a financial bubble or that gold prices will crash soon. The intention is to assist with understanding that determining a commodities' value is very difficult, if even possible at all.

In 1593 tulips were brought from Turkey and introduced to the Dutch. After a time, the tulips contracted a non-fatal virus known as "mosaic," which altered the tulips causing "flames" of color to appear upon the petals. The color patterns came in a wide variety, some rarer than others. Thus, tulips, which were already selling at a premium, began to rise in price according to how their color variations were valued, or desired. Everyone began to deal in bulbs, essentially speculating on the tulip market, which was believed to have no limits.

Soon, prices were rising so fast that people were trading their land, life savings, and anything else they could to get more tulip bulbs. Needless to say, the prices were not an accurate reflection of the value of a tulip bulb. As it happens in many speculative bubbles, some prudent people decided to sell and take profits. A domino effect of progressively lower and lower prices took place as everyone tried to sell while not many were buying. The price began to dive, causing people to panic and sell, regardless of losses.

People began to realize they traded their homes for a piece of greenery. No one emerged unscathed from the crash. Even the people who had locked in their profit by getting out early suffered under the depression that followed.

Webster's Dictionary defines investment as "the outlay of money, usually for income or profit." Income would be in the form of dividends or interest. Profit would come from the sale of the investment. Now we all know that gold, like tulips, does not pay dividends or interest. Therefore, one would only purchase gold in hopes to turn a profit. This is the case with all commodities.

What do we have to gauge whether we might profit from gold? What can we use to judge the amount of risk we are taking? Unlike a company which might issue stocks or bonds, commodities such as gold do not have products, management, earnings, balance sheets, or income statements to assist with determining value. There are no variables to compare, so determining value is a difficult task. So what should influence our decision on whether to buy gold?

In fact, there is only one consideration when buying gold: Will somebody else purchase it for a higher price than you? Buffett states, "This type of investment requires an expanding pool of buyers, who, in turn, are enticed because they believe the buying pool will expand still further. Owners are not inspired by what the

asset itself can produce—it will remain lifeless forever—but rather by the belief that others will desire it even more avidly in the future."[1]

Buying something not because you believe that it is worth the price, but rather because you believe that you will be able to sell it to someone else at an even higher price is known as "survivor investing." As the name implies, this kind of investing is a matter of not being the last person to think the price will go higher.

One last time from Buffett: "Over the past 15 years, both Internet stocks and houses have demonstrated the extraordinary excesses that can be created by combining an initially sensible thesis with well-publicized rising prices. In these bubbles, an army of originally skeptical investors succumbed to the "proof" delivered by the market, and the pool of buyers—for a time—expanded sufficiently to keep the bandwagon rolling. But bubbles blown large enough inevitably pop. And then the old proverb is confirmed once again: "What the wise man does in the beginning, the fool does in the end."[2]

Matt

Matthew Dennis
Portfolio Analyst

Sources:
[1] *Warren Buffett speech at Harvard, 1998.*
[2] *"Warren Buffett: Why stocks beat gold and bonds," **Fortune Magazine**, February 9, 2012.*

Results of Our 2012 Client Survey

Fanatical curiosity is a term that describes our enthusiasm for learning.

We appreciate our relationship and your willingness to share your opinions. We would like to provide a sampling of what we learned from your feedback. Clients expressed high confidence on the subject of market leadership (during turbulence) and team competency. Clients also had a high level of satisfaction with the client experience provided by our firm. Of particular note, our clients were favorably inclined to recommend the services of our firm to friends, family and colleagues. On improvement, clients suggested a clearer method for introductions, so here are some ideas …

THANK YOU!

Getting the Most Out of Your Financial Advisor

BUILDING FUTURES

by Buck Beam

Although most of our clients have been with us for many years, they are sometimes surprised to find out about other services we offer. If you have a question dealing with personal finances, you can be sure it has come up before, and with more than fifty years of combined experience, we have likely dealt with your issue already at some point. If not, we will know where to seek guidance.

An example of a typical question is whether it's prudent to refinance an existing mortgage or pay it off early. We can provide the analysis, and if needed, we can introduce you to mortgage lenders and bankers in the community with whom we have relationships.

Fountain Financial does not practice law; however, we can review your estate documents to verify that they are up to date and appropriate for your situation and current tax laws. We welcome the chance to work with your attorney to create, or update, your estate plan. We can even host family meetings with your executor and beneficiaries so everyone understands your final wishes. We work closely with these individuals during estate settlement, so developing a relationship early on can be reassuring for all.

We can also work with your tax professional to maximize planning. This includes tax information reporting, tax-efficient portfolio management, reviewing annual retirement plan contributions, and gifting of securities to charities or family members.

We have in-depth experience with personal finance topics such as college planning for kids and grandkids, long-term care, life and disability insurances, and small business retirement plans. Other frequent questions we encounter: How should I pay for a new car? How is my small business doing? When can I retire? Can you meet with my children and grandchildren? Can I afford to take a new job? We take a big picture approach to these important financial decisions, and we will give you an objective, realistic opinion.

Our team is multidimensional and knows when to seek help with unique questions and situations. Where needed, we make referrals to outside professionals, or work with your existing tax, legal or insurance advisors. We are grateful for all of our clients and appreciate the opportunity to further build our relationship in all financial matters impacting you and your family.

Buck

Buck Beam
Investment Advisor Representative

Rewarded

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see, courage is the primary attribute for effective management of assets.

So, here we are on September 12, 2012 (as I write). The S&P is at 1437, up from a low of 677 on March 9th, 2009. My point is as follows:

1) The real risk is not volatility of the daily values in our portfolio, but rather the potential loss of purchasing power over a lifetime.

2) Do not ever, ever surrender to panic and jump out of a good investment plan that you have implemented with a capable investment advisor—no matter what is on TV, newspaper, internet, talk radio or in the published media.

My good friend who called with the message "it is time to get out" has taught me many positive lessons in life. Fortunately, I was able to return the favor in this case. This business of investing does not need to be overly complicated, but it does require basic fundamentals. The most important fundamental is to avoid mistakes. Risk and volatility are not the same thing, so make sure you understand the difference.

We are here to support you and your family in that process.

Vinton

Vinton Fountain, *President*
Fountain Financial Associates

Your confidence is our highest honor

If you would like to assist a friend by recommending our services, please consider these three steps to make the process simple and effective.

1. Identify

People may need help as they experience life events, such as:

- Retirement
- Estate planning assistance
- Sale of business
- Relocating to the area
- Divorce
- Death of parents/inheritance

2. Introduce

Introduce our firm and suggest that we will contact them by phone. Consider sending them an email with a link to our website:

www.fountainfinancial.net

3. Inform

Provide us with their name and phone number by calling our office or sending an email.

Fountain Financial Associates
(910) 256-8882
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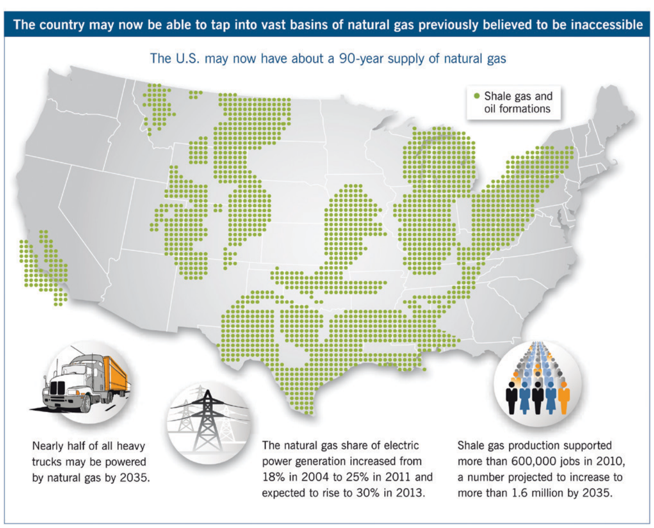
Re-energizing America and Our World

SOLVING *for* SUCCESS
by Chris Riley, CFP®

Recently I was taking in an article in ***Wired Magazine*** on the latest Apocolypse or lack thereof, and musing at accounts of a few of history's doomsayers. Everyone from religious leaders to ecologists to politicians to economists have predicted our inevitable demise, and when the sun rises on December 22nd this year and we survive the end of the Mayan Long Calendar, we will add one more to the list! It is a familiar tune, and though wary of the ever present challenges ahead of us, we will survive and dare I say even thrive.

Too often news focuses on the extreme viewpoints and not the more realistic middle ground. Poor policy and lax regulation can certainly negatively affect our global climate, but new and improved technology can yield positive results. What if plant yields make the world a richer place, nuclear fusion is made cost-effective or gas replaces coal, leading to lowered carbon emission?



Sources: U.S. Energy Information Administration (EIA); EIA's *Annual Energy Outlook 2012*; Center for American Progress, "American Fuel: Developing Natural Gas for Heavy Vehicles," April 2010; EIA's *Short-Term Energy Outlook*, May 2012; and *IHS CERA Alert*, "The Economic Contributions of Shale Gas in the United States," December 2011.

Energy remains particularly prominent in the headlines, and the topic of much debate. Can we sustain a thriving planet in the face of rising global demand? Our domestic energy industry is currently in the midst of an extraordinary transformation that could have a vast impact on our economic future. Much of the attention has been on natural gas, and the increase in the accessible supply. Domestic manufacturers and the agricultural sector may be the greatest beneficiaries of abundant, affordable natural gas, both in terms of production and use. The United States may soon reach the cusp of being a net exporter of energy which seemed unthinkable just a few short years ago. This surge in production also coincides with an increase in fuel efficiency and improving technology. Meanwhile there are concerted efforts to monitor and regulate how gas is being extracted and converted to a consumer-friendly energy source. It will require collaboration among some of our brightest engineers and scientists to create and sustain a vibrant, safe and efficient industry. There is great potential to create thousands of jobs and some level of energy independence for the US.

Alternative energy may sound like a cop-out, as technologies such as wind, solar, fusion and many others may hardly seem like ways to produce enough energy to power our busy world today, but sustainable, controllable and affordable sources of energy in these and other areas are being developed. There are currently thousands of efforts underway, both public and private, to harness and produce energy. We will need energy from multiple sources simply to meet global demand, and alternatives will comprise an increasing percentage of that. Partnerships and education will be implemented, innovation will meet the challenges head-on, and competition will be plentiful. Our energy future appears bright and full of promise.

Chris

Chris Riley, CFP
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