

January 20, 2010

### The “Hows” and “Whys” of Christmas Lights

As far as Christmas light displays go, ours is a whole different breed. It all started when my daughter Alison, home from college for Christmas break in 1996, asked, “Hey Dad, can you help me with something?” If you have kids, especially daughters, you know that’s nearly impossible to resist. She had seen a few grapevine spheres wrapped in clear Christmas lights, hanging low in trees at a house in Raleigh. She had stopped to take a closer look, pulled out her artist’s pad, walked right up in the yard and sketched what she saw.



Image courtesy of FineArtPhotographyWorks.com

So, we grabbed a sheet of chicken wire, formed it into a lumpy sphere and wrapped it with 100 mini lights. We ran a household extension cord out our bathroom window and flung our lighted tumbleweed over the lowest branch. We made two more, plugged them into the first one and went inside. Cars started slowing down and son Justin said, “We should make them bigger . . . and hang them higher.” The next year, we made a 15 inch diameter ball, got out the potato cannon, and hung the first lighted ball up 75 feet into the tallest oak in our yard. Exhilarated, we sent a

dozen or so lighted Christmas balls up into our 100 year old oak trees. We had no idea what this was becoming.

By the next Christmas, a few neighbors wanted in on the fun. We cheerfully showed them how. Neighbors’ trees started lighting up. Car and foot traffic grew as word of mouth spread. Annually, our newspaper posted a map of the best Christmas lights displays. When we opened up our paper, we were astonished to be listed in the group. They had this to say, “This one makes the list because it’s different. The Smiths hang lighted spheres in the trees around their home...it looks like a fireworks display in their yard.” Next Fall, our phone rang off the hook, so we decided to have a workshop for the neighborhood instead of giving lessons one at a time.

As much fun as it was to host workshops and see lighted balls popping up all over town, it was all still just another pretty Christmas light display. It wasn’t until a few years ago that our neighbor across the street wondered out loud “why” we were doing all this. My answer was probably something along the lines of “beauty, traditions and community.” She suggested something bigger, “What if we used this to help people who really need it? Let’s have a food drive with the workshop.” That’s when a pretty Christmas light display turned into something truly meaningful.

Our first workshop/food drive netted 508 pounds of canned goods and \$735 to local food banks. To extend the food drive past the workshop day, we parked a utility trailer in our front yard and 2,976 pounds of canned goods were dropped off by the steady stream of people who came to see our neighborhood’s lights. The next year 3,729 pounds of canned goods and \$418 were given and we learned that the staff of Moses Cone Regional Cancer Center returned its patients to their homes via our street for an extra dose of hope. This



128 E. Fisher Avenue | Greensboro, NC 27401  
 ☎ Office: 336-272-9488 | 📠 Fax: 336-272-2654 | ✉ Email: [info@jonathansmith.com](mailto:info@jonathansmith.com)  
[www.jonathansmith.com](http://www.jonathansmith.com)

*Building, protecting, and managing wealth through every stage of life.*

*Our comments about the economy and the stock market are based on our own analysis and are not representative of the future performance of any security, fund or of the overall market.*

year, 4,158 pounds of canned goods and \$6,160 were given to combat hunger in our area. Since the first lighted Christmas ball went up in 1996, we estimate that there are 5,000 lighted balls in Guilford County, with 3,000 of those in our and the surrounding neighborhoods. Folks from as far away as Sweden and Australia have emailed and sent pictures of their newly crafted lighted balls. Images, video, and more may be viewed on our weblog<sup>1</sup>. Our neighborhood's efforts have blossomed, multiplied, and been reproduced in other neighborhoods all because one person thought to ask, "Why are we doing this?" and she didn't accept my first answer.

### The "Whys" of Investing

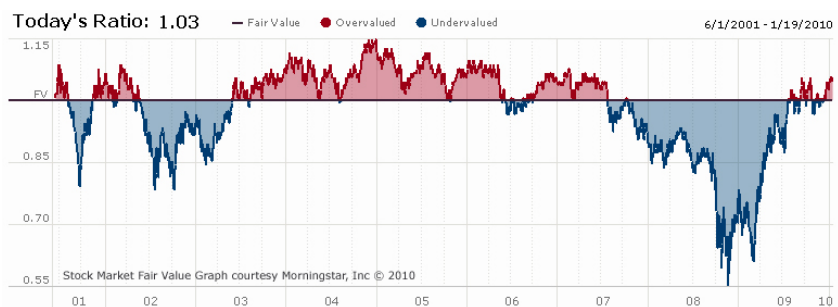
For thirty years, we've sat across the table from clients, prospects and friends, asking almost the same question my neighbor asked me, "Why do you want to invest like you do?" Some responses center on benchmarks ("I just want to beat the S&P500 or my brother-in-law, whichever does better") and others on a dollar amount ("I just want X million") or a timeline ("I want to retire in Y years"). All of these reasons for "why do you want to invest like you do" sound like decent, worthy goals. But, we'd argue that when we can help our clients craft more meaningful answers, the results will be seen for generations to come.

When we explore the "whys," we focus not only on the *magnitude* of investment returns, but also on the *nature* of those returns. We explore how much volatility our client could handle (both financially and emotionally). Our experience shows that many clients who claim to want stock-like returns have bond-like stomachs. For our income focused clients, we walk through what it means to have a large portion of their returns from dividends and interest rather than price appreciation (or depreciation for that matter.) For the longer-term client, we explore what it means to be compensated for taking on increased risk. It takes a bit more effort, understanding, and patience, but answering the "whys" is how investing becomes more than just another Christmas light display.

### The "How" is More Important than Ever

We've focused the last few commentaries<sup>2</sup> on the framework of "how" we invest. Our framework is like our map which, as events unfold, helps us know where to modify our course in order to still reach our destination safely. There were plenty of days in 2009 when fear held the upper hand in the stock and bond markets, but as long as our framework told us the risk/reward tradeoff was highly in our favor, we stayed invested when the outlook was bleak. Lately however, it's become a markedly different scenario; see the Stock Market Fair Value chart below. Now bullish investor sentiment is high; bearish sentiment is low.

The market has reacted positively to recent earnings surprises, a falling dollar, and low interest rates. Looking at our map, however, it's realistic to consider how these "positives" could turn south in a hurry. Earnings surprises have been fueled chiefly by cost savings and government

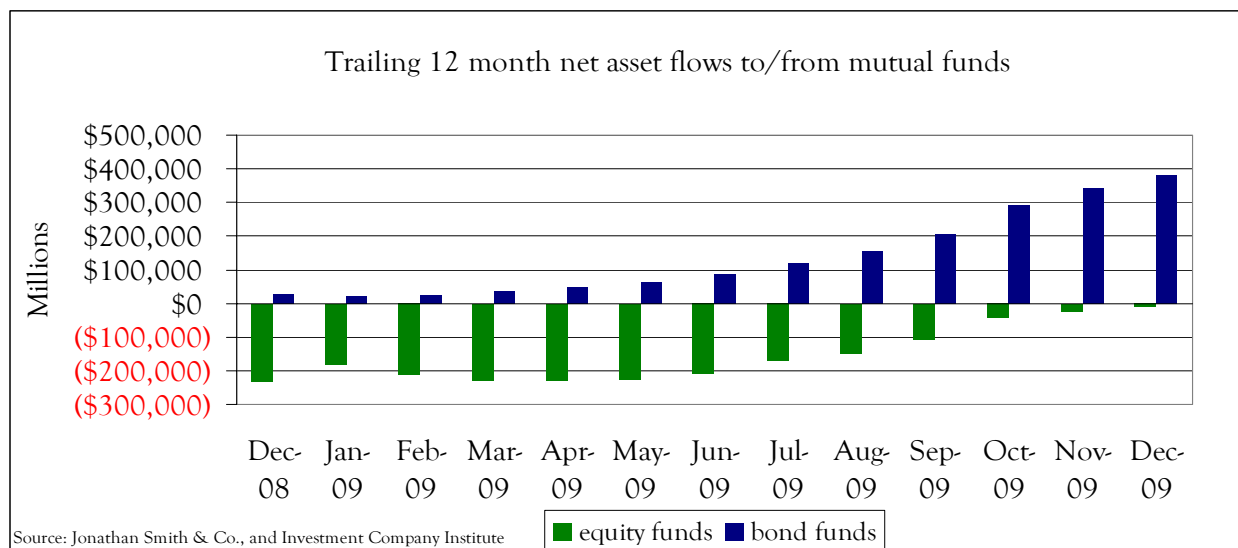


spending that is unlikely to continue. If the market realizes robust earnings comparisons can't continue,

gains will likely be given back. Recently the falling dollar, because of its positive effect on exports and deflation fears, has been very good to the average stock investor. However, if fewer people want to hold dollars, the relative attractiveness of the United States, as a place of investment, fades and inflation looms. Lastly, historically low interest rates have helped stabilize the housing market and provide for small businesses, which in turn, obviously buoys the market. But interest rates have nowhere to go but up, and higher interest bearing instruments could easily trigger an outflow from stocks and lower yielding bonds.

### The Caution Flag

The US Government will soon transition out of the stimulus business. Hopefully it will transition into lowering the deficit, identifying the failure ingredients that got us into this mess and engineering their removal, and releasing its headlock on small business, the very backbone of our nation's growth and development, health and welfare, and prosperity. Here on Main Street, unemployment holds unrelentingly at 10%, taxes seem certain to rise, businesses are reluctant to borrow money and hire new workers, American men and women fight two wars on foreign soil, and we are not immune from terrorist attacks. Investors responded to lurking instability by depositing more money into bond funds than stock funds every month in 2009; see chart below.



We won't know if those investors had the right response till much later, but we do know that less certainty means the need for a margin of safety is more important than ever. So, although we're seeing some recovery, some stability and we're navigating confidently through this market with map in hand, the caution flag still flies.

Jonathan Smith  
Managing Partner

<sup>1</sup> <http://www.lightedchristmasballs.blogspot.com>

<sup>2</sup> <http://jonathansmith.com/resources.cfm>