

April 2009

## IMI Consultants Congress

Eric J. Petroff, CFA  
Director of Research  
[epetroff@wurts.com](mailto:epetroff@wurts.com)



### WURTS & ASSOCIATES

#### SEATTLE

999 Third Avenue  
Suite 4200  
Seattle, Washington 98104  
206.622.3700 *telephone*  
206.622.0548 *facsimile*

#### LOS ANGELES

2321 Rosecrans Avenue  
Suite 2250  
El Segundo, California 90245  
310.297.1777 *telephone*  
310.297.0878 *facsimile*

# How We are Serving Our Clients in This Environment

## Our Primary Goal:

- Think on behalf of our clientele

## Our response in This Environment:

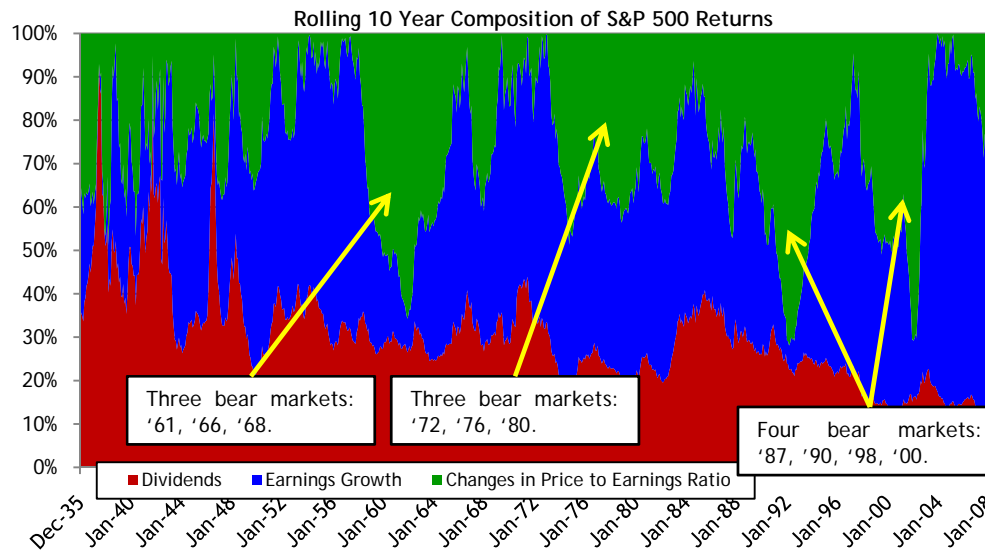
- Thoughtful, Creative, and Forward Looking Strategic Research

## What are We Actually Doing?

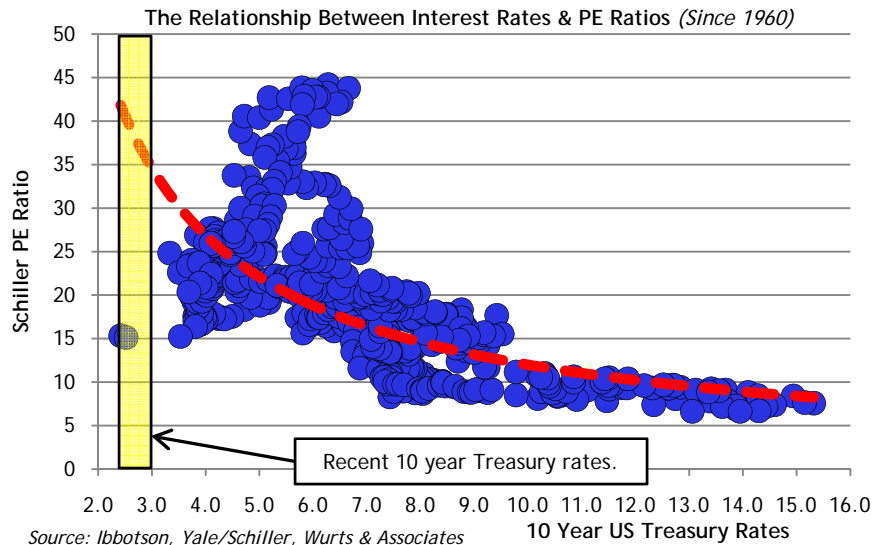
- 1) Not simply looking at historical returns, but the economic factors that drove those returns.
- 2) Creating more practical methodologies to dimension risk and return.
- 3) Focusing our efforts on time frames in which we're most likely to add value.
- 4) Challenging conventional wisdom and protecting our clientele from fear and irrationality
- 5) Incorporating salient capital markets, macro economic, and government research.



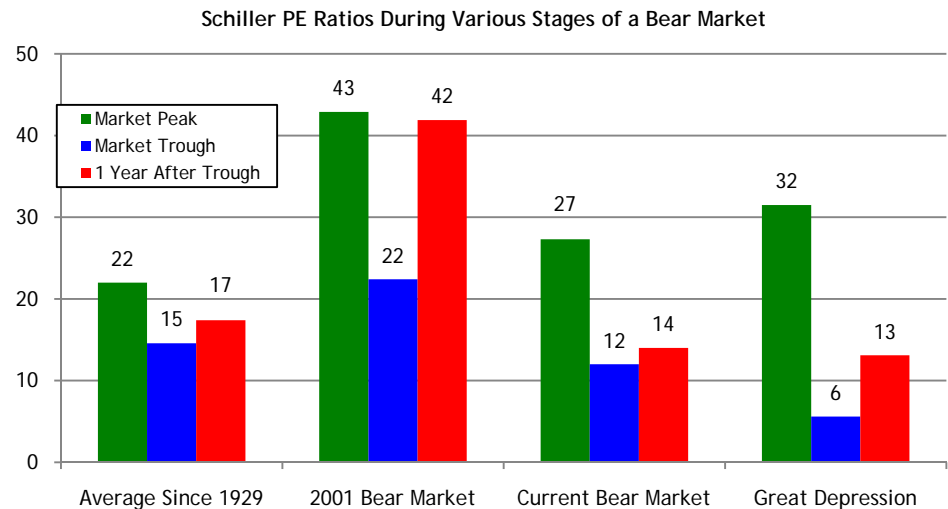
# What Really Drives Returns Bull and Bear Markets?



Source: Ibbotson, Yale/Schiller, Wurts & Associates



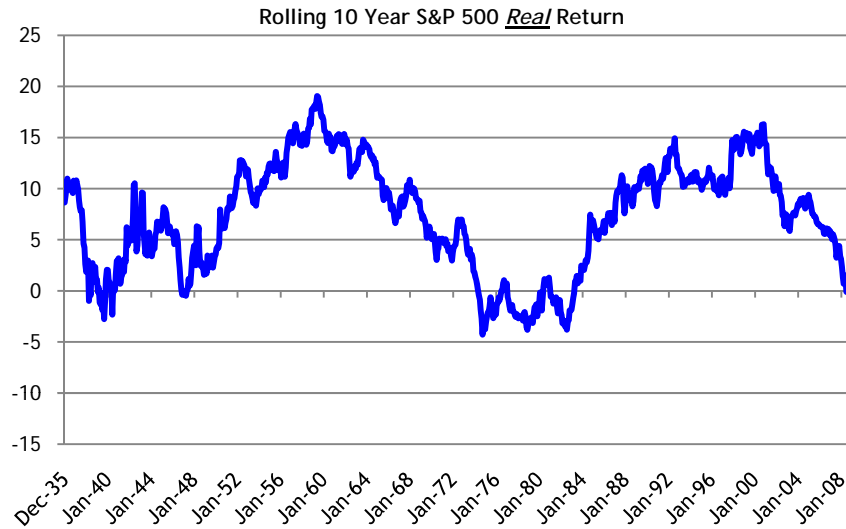
Source: Ibbotson, Yale/Schiller, Wurts & Associates



Source: Yale/Schiller, Wurts & Associates

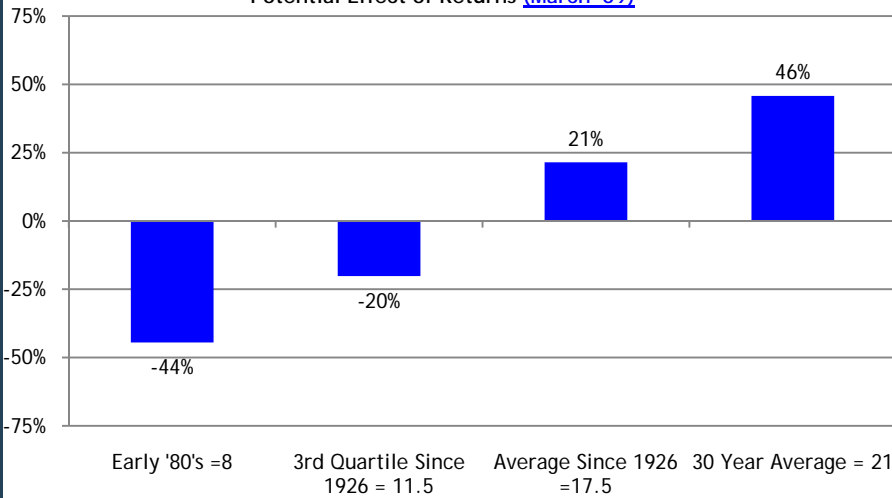


# A Practical Examination of Downside Risk (*Equities*)

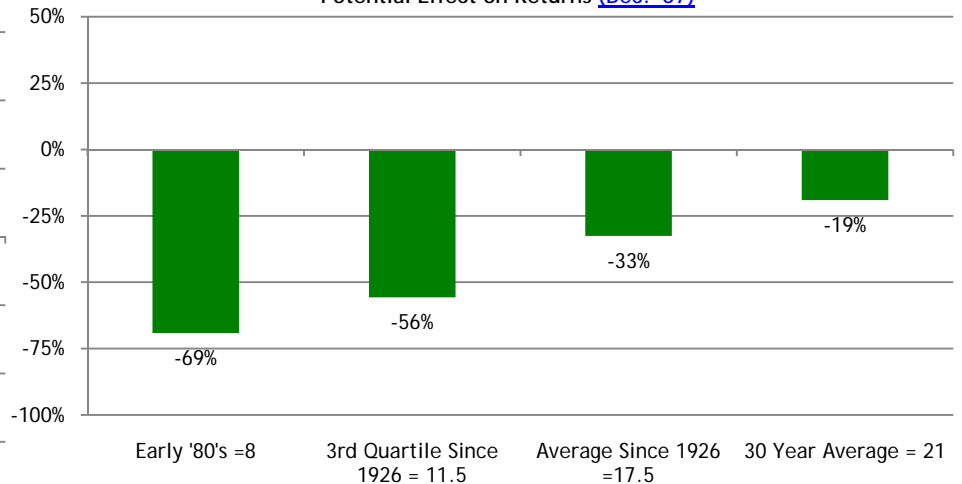


Source: Ibbotson

Sensitivity Analysis to Changes in Schiller PE Ratio:  
Potential Effect of Returns [\(March '09\)](#)



Sensitivity Analysis to Changes in Schiller PE Ratio:  
Potential Effect on Returns [\(Dec. '07\)](#)

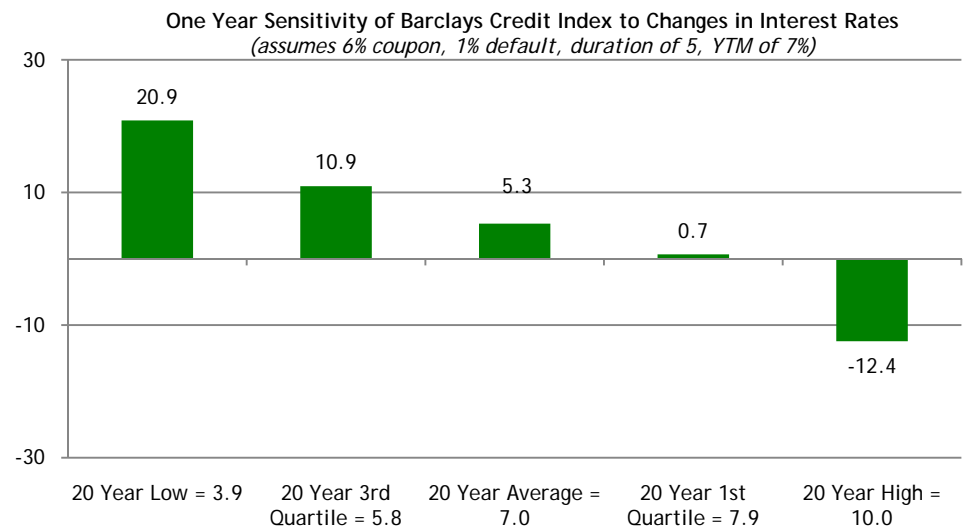
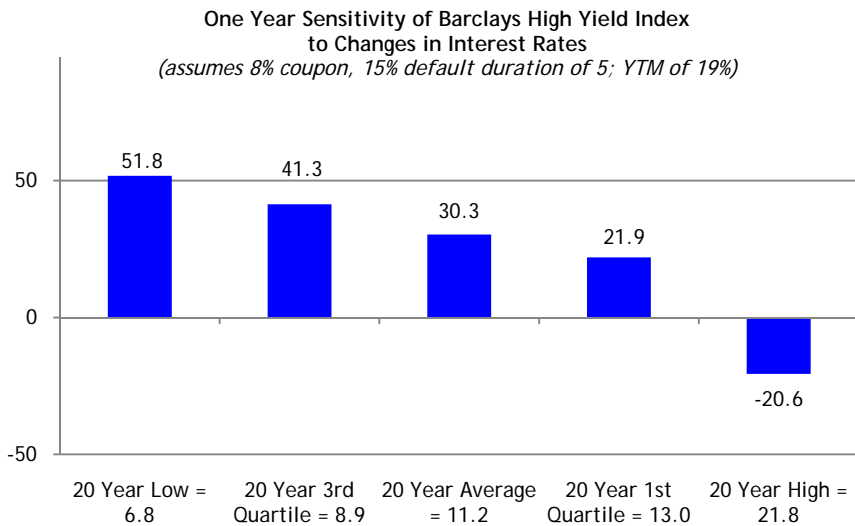
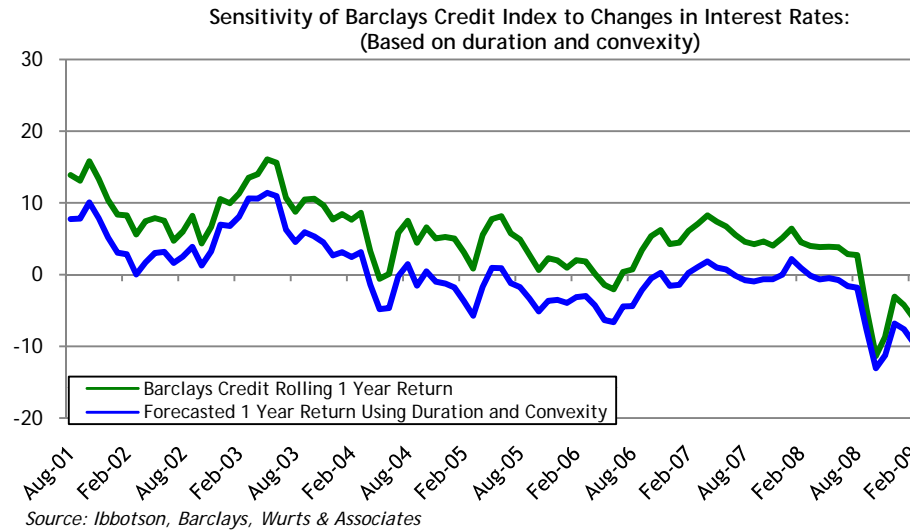


Source: Yale/Schiller, Wurts & Associates



Source: Yale/Schiller, Wurts & Associates

# A Practical Examination of Downside Risk *(Fixed Income)*

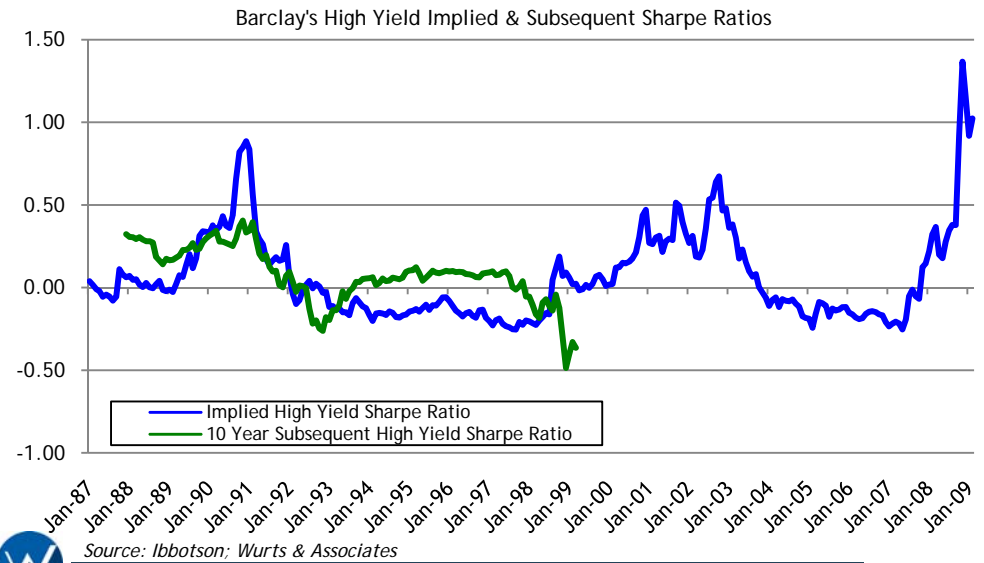
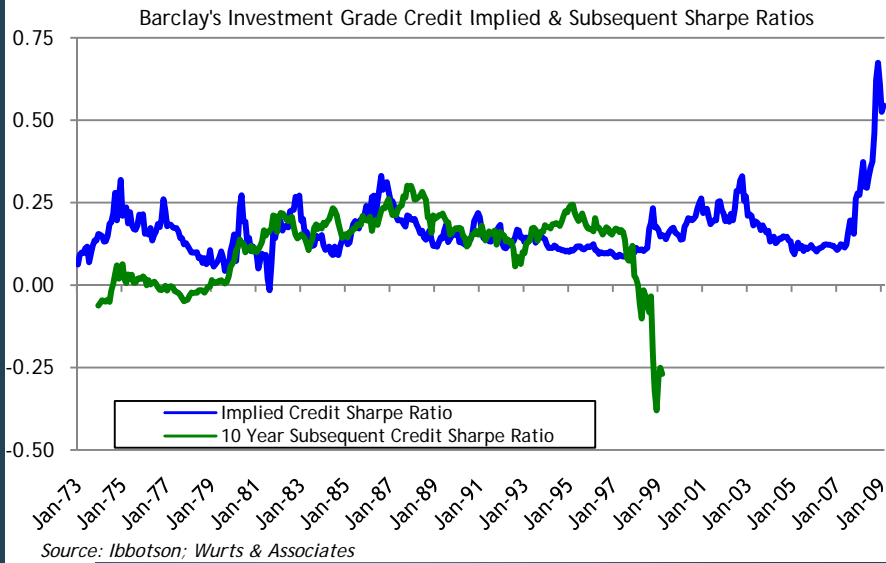
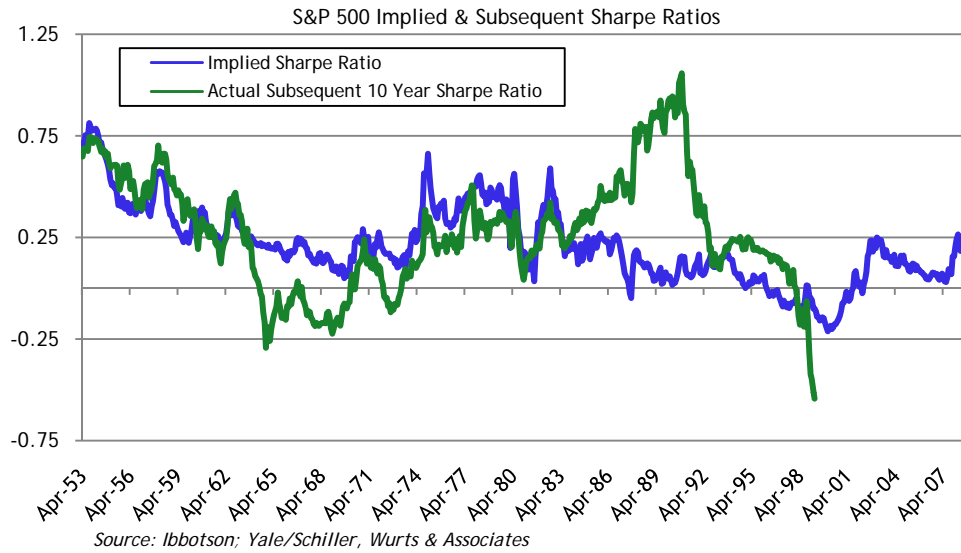


Source: Ibbotson, Barclays, Wurts & Associates

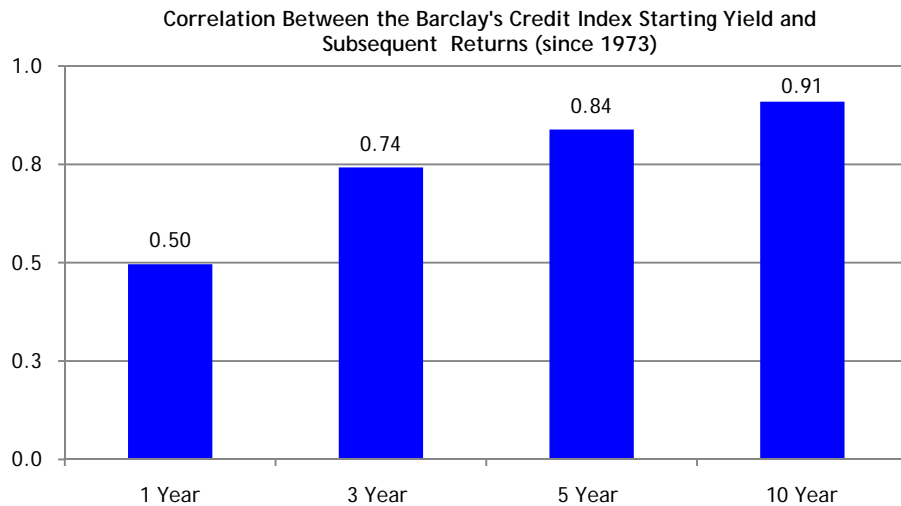
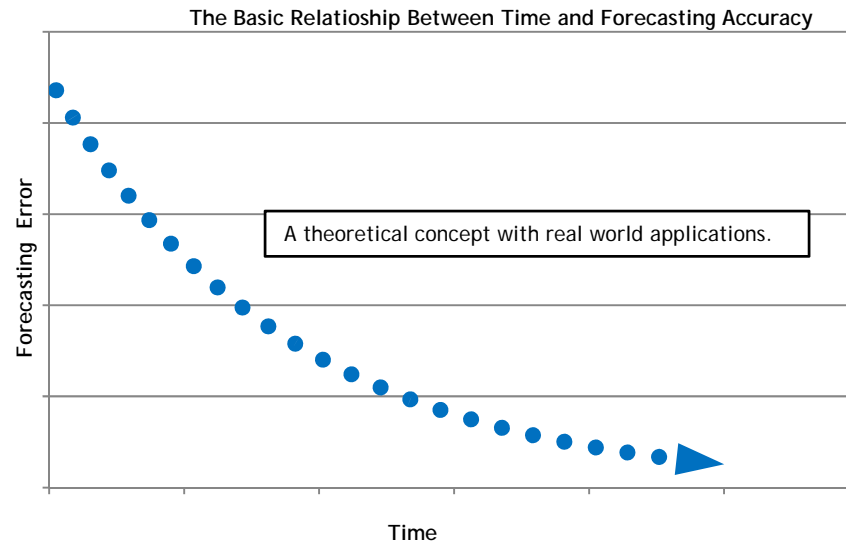


Source: Ibbotson, Barclays, Wurts & Associates

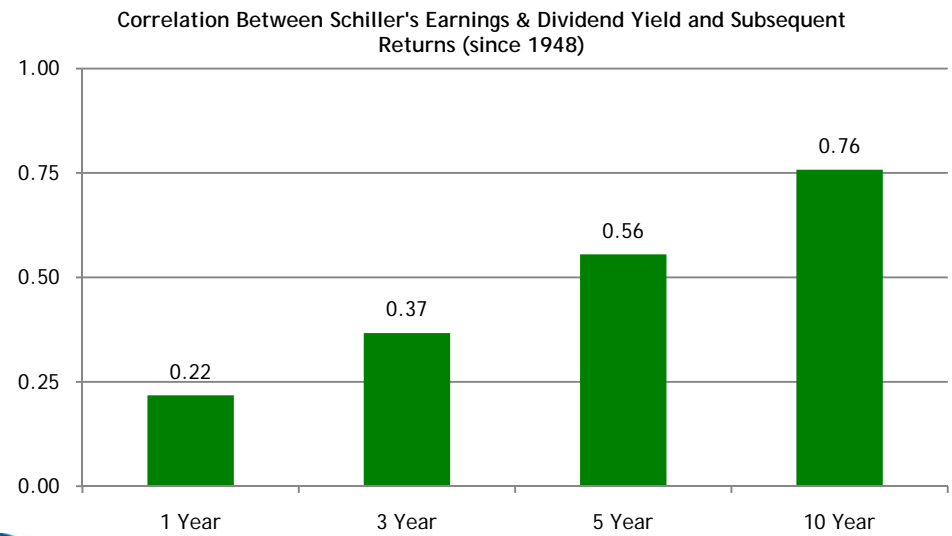
# Forecasting Risk Adjusted Returns *(Relative to equities)*



# Why We Look at 10 Year Investment Horizons?



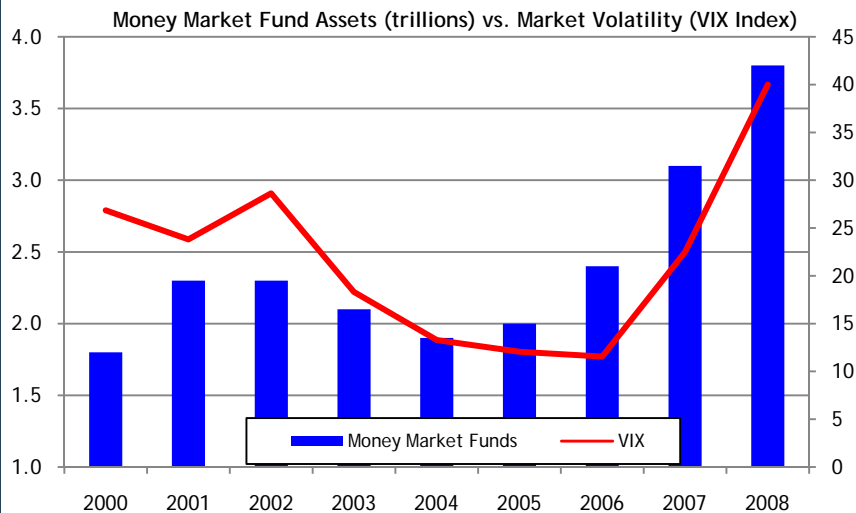
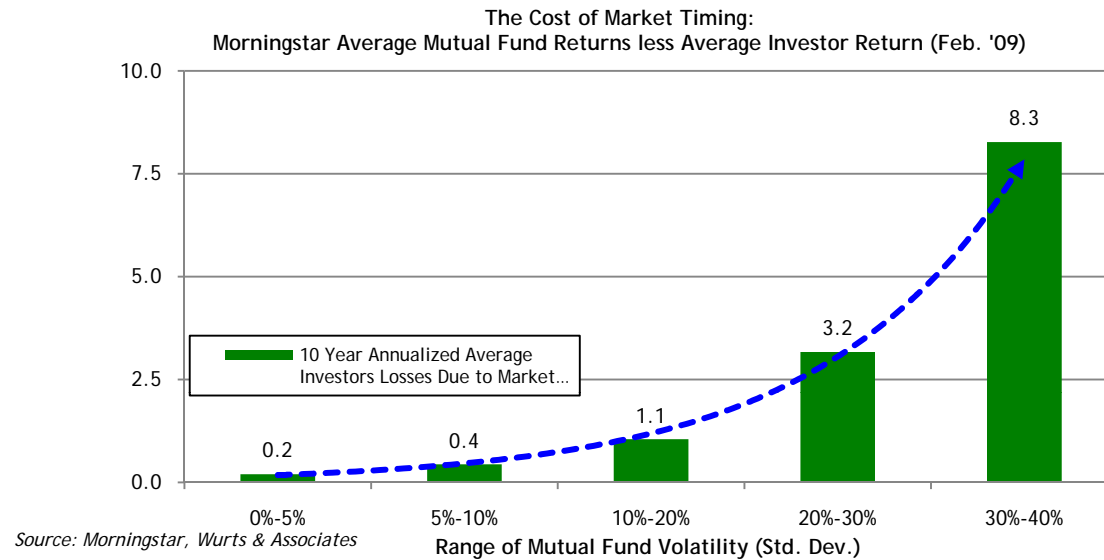
Source: Ibbotson, Wurts & Associates



Source: Ibbotson, Yale/Schiller, Wurts & Associates



# Think You Can Time the Market...Think Again



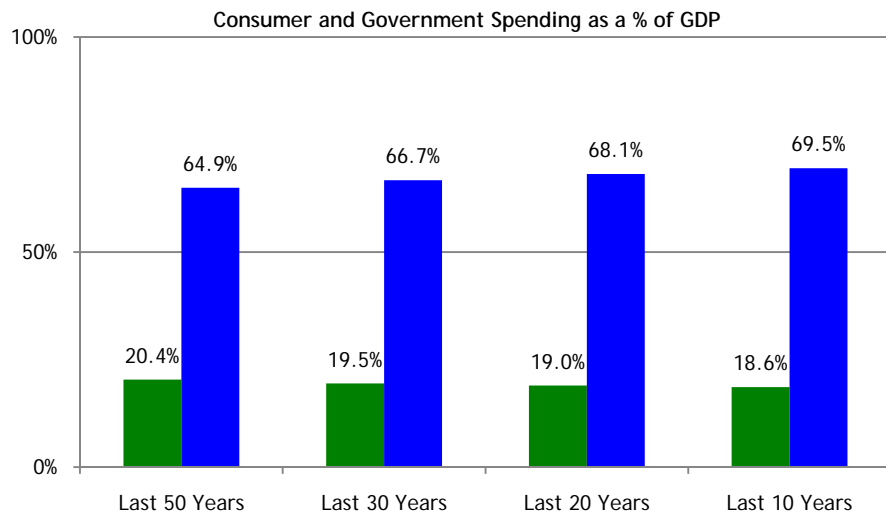
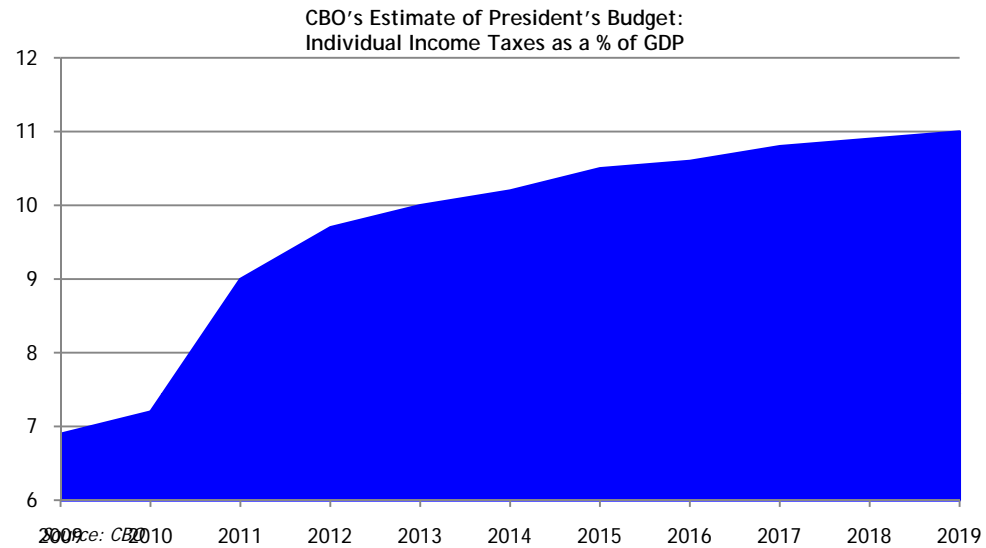
The Cost of Market Timing Managers (hiring/firing) for Plan Sponsors

	Number of Years Before Firing			Number of Years After Firing		
	-3 to 0	-2 to 0	-1 to 0	0 to 1	0 to 2	0 to 3
Fired Firms	2.0	-1.6	-0.1	1.8	3.1	4.3
Hired Firms	11.6	7.6	4.5	1.3	2.3	3.2
<b>Return Differential (Hired-Fired)</b>	<b>9.5</b>	<b>9.1</b>	<b>4.6</b>	<b>-0.5</b>	<b>-0.9</b>	<b>-1.0</b>

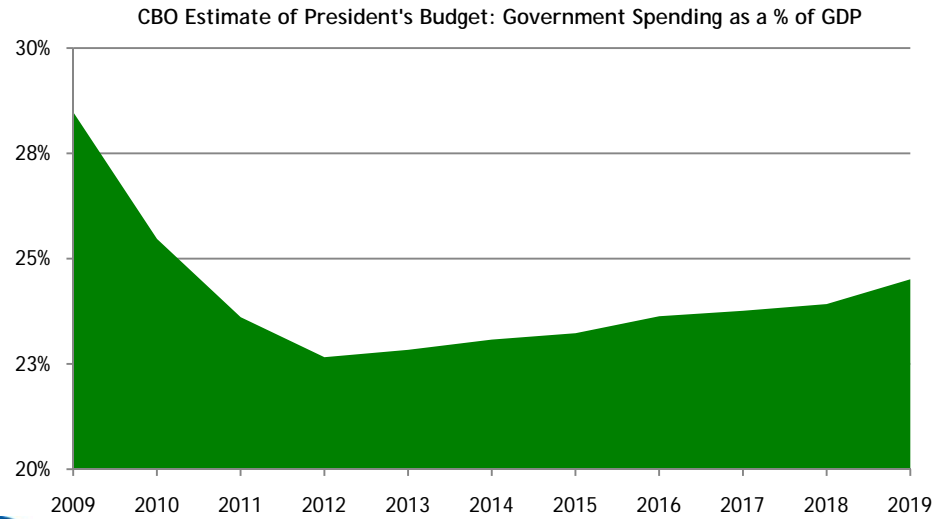
Source: The Selection and Termination of Investment Management Firms by Plan Sponsors: Amit Goyal & Sunil Wahal



# Is the Age of the Consumer Coming to an End?



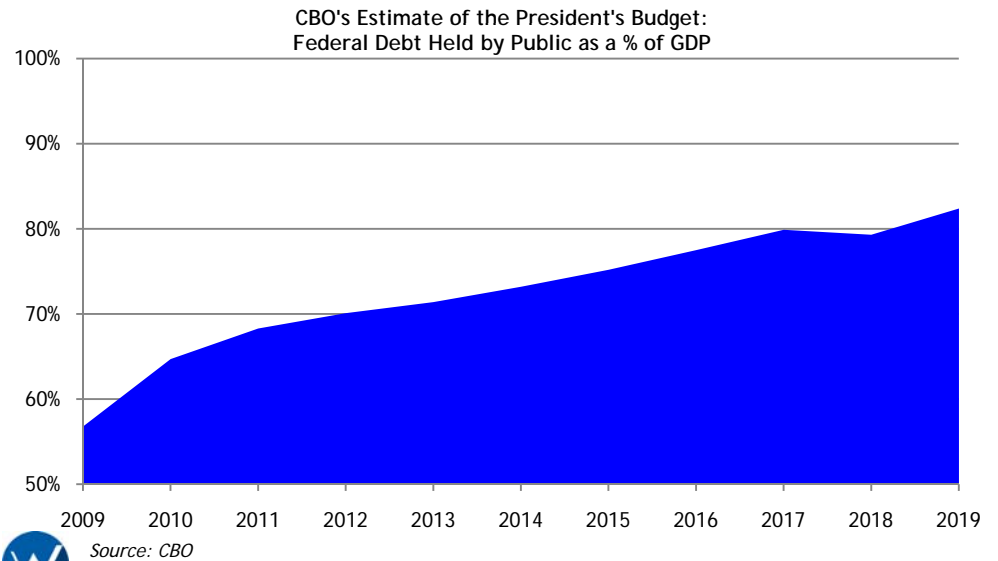
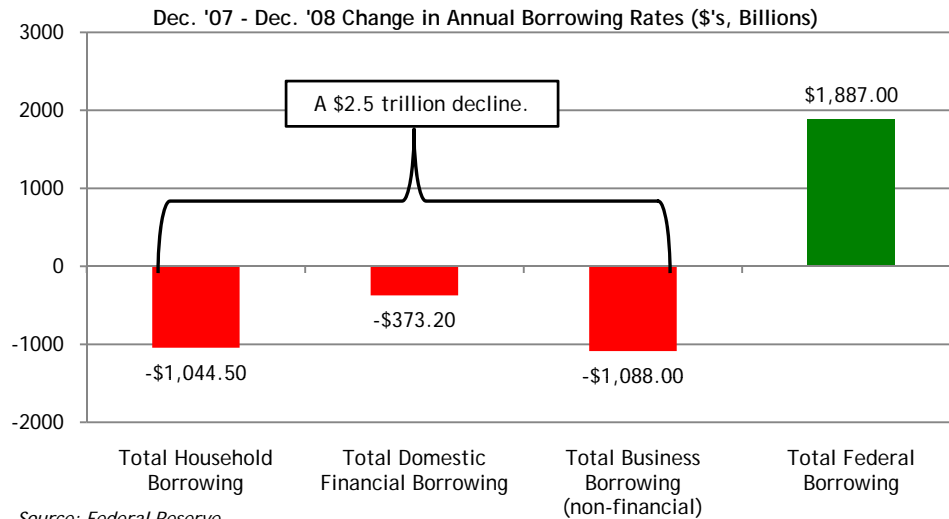
Source: CBO, BEA, Wurts & Associates



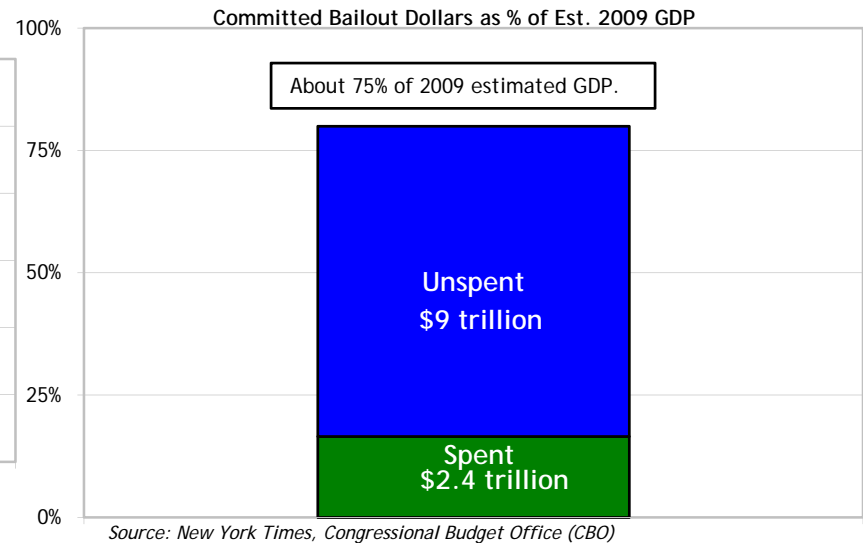
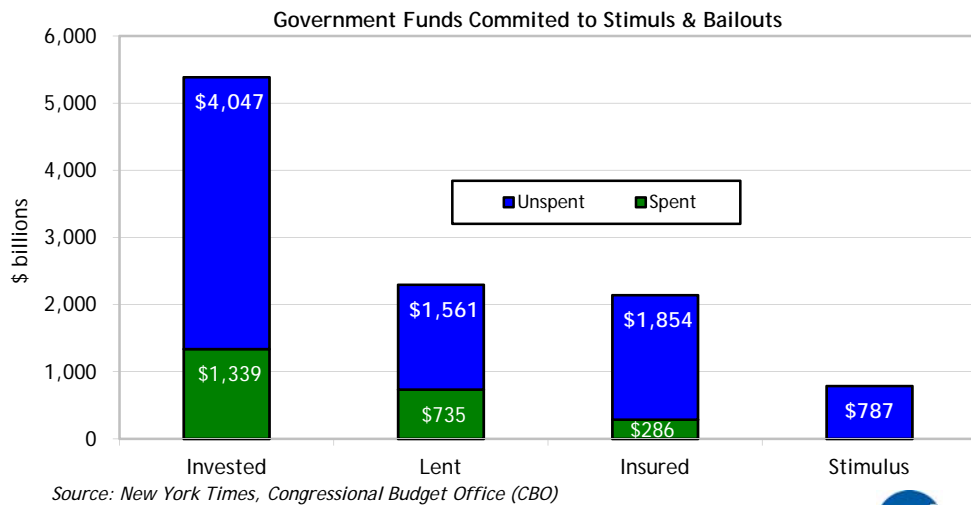
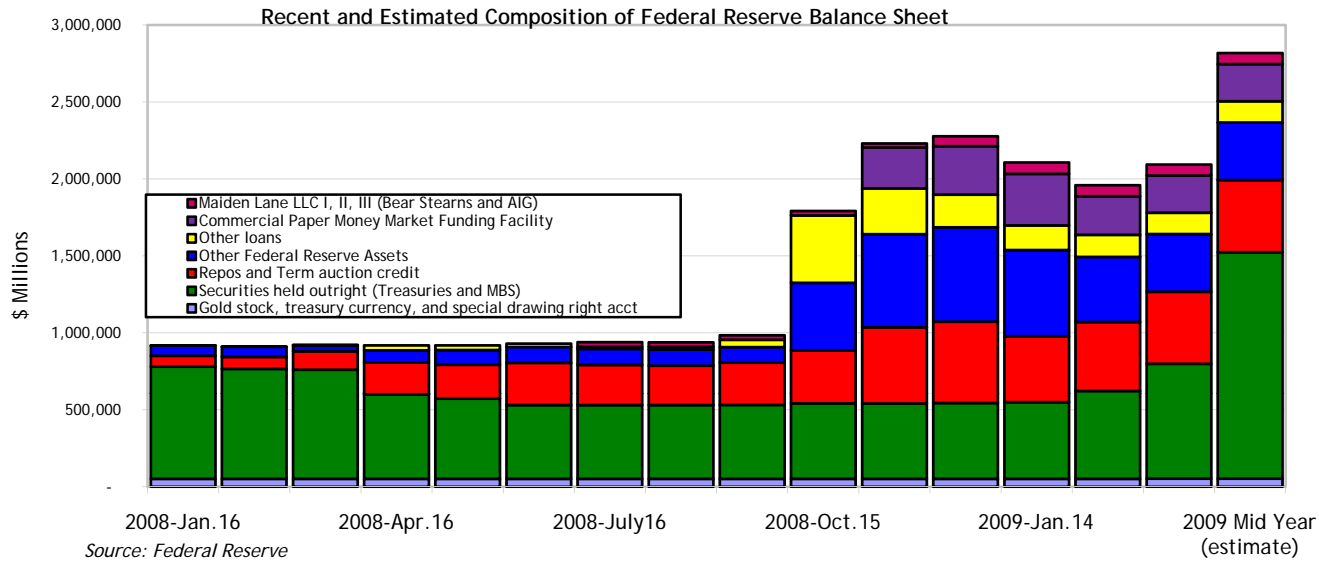
Source: CBO, BEA, Wurts & Associates



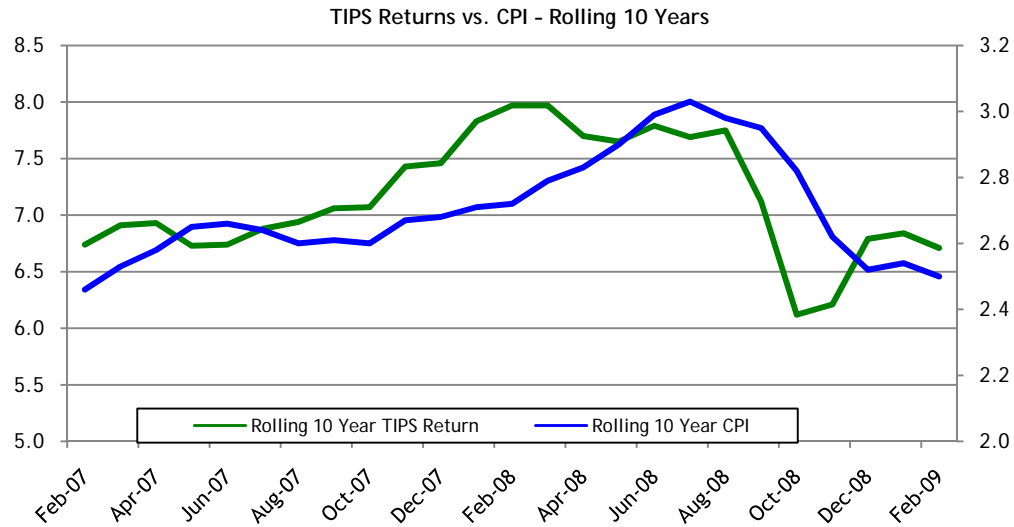
# Are We Really De-Levering, or Simply Supplanting Leverage?



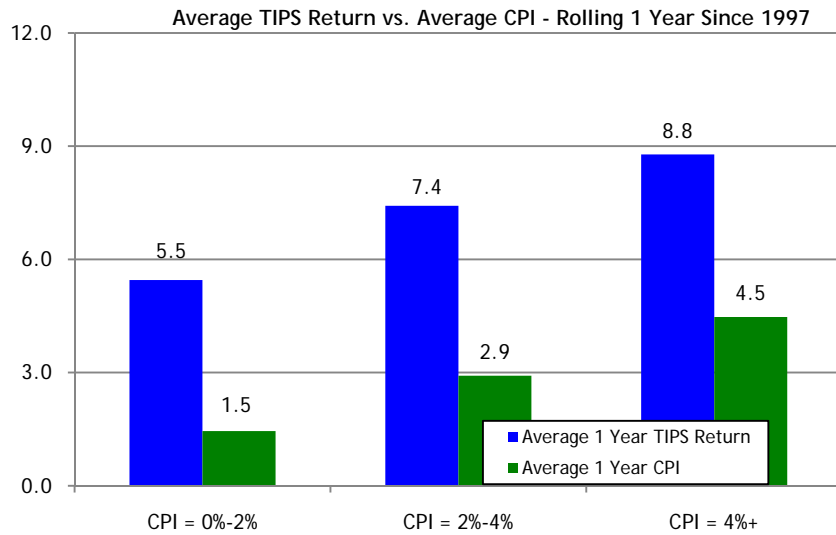
# A 50,000 Foot View of Government Stimulus & Bailouts



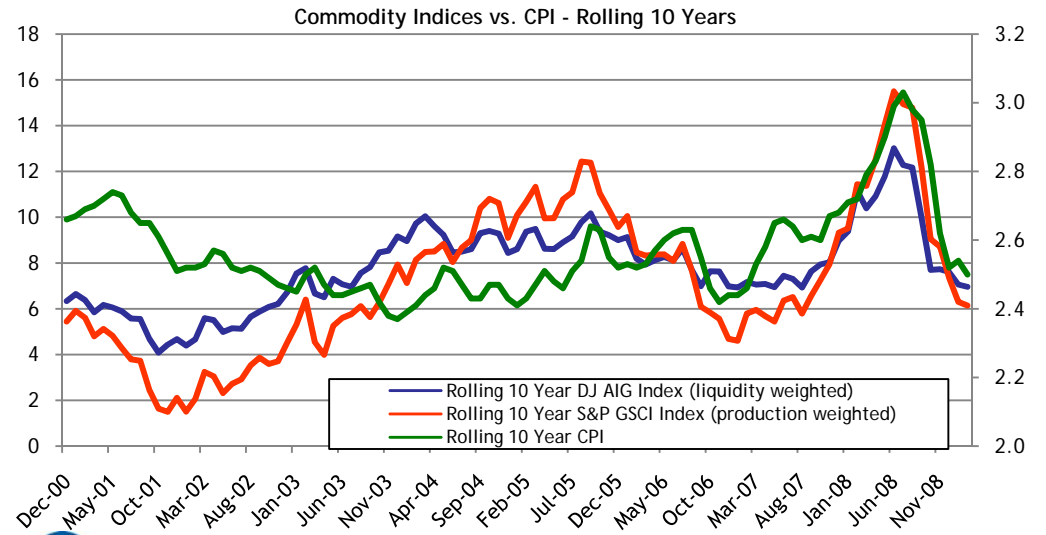
# An Example: How Do We Protect Against Inflation?



Source: Ibbotson



Source: Ibbotson, BLS, Wurts & Associates



Source: Ibbotson