



The Set of the Sail

Everyone loves a story. This is one of my favorites from Anthony De Mello. It is about so-called experts, and I thought it would be a great way to begin the new year.

The Experts

A dead man suddenly came to life and began to pound on the lid of the coffin.

The lid was raised; the man sat up. "What are you doing?" he said to the assembled crowd. "I am not dead."

His words were met with silent disbelief. Finally one of the mourners said, "Friend, both the doctors and the priests have certified that you are dead. So dead you are."

And he was duly buried.

- Anthony De Mello

The Siren Song

Similar to the experts in this true to life De Mello story, many expert analysts from Wall Street were incorrect in their forecasts in 2008. These highly-paid stock market prognosticators predicted last year that soaring oil prices would move higher than \$150 a barrel and unleash the ravages of rising inflation. They said that a recession was possible and that if we had one, it would be mild and stock prices would recover by the end of the year. As we look back, these forecasts proved to be very poor and as sensible as holding a finger to the wind in a tornado.

Instead, the market closed its lid on analysts' expectations and, regrettably, opened the lid of Pandora's Box. Unfortunately, for those who took their advice, the party was over because these experts were proven wrong and in the ensuing fallout ushered in the twin brothers of fear and uncertainty. In the final analysis, these "experts" were just making a guess about the future. They were attempting to forecast economic, political and social events that contain too many variables.

As the new year begins, they are at it again with flimsy predictions for 2009. Why should we listen to them now? Just as Odysseus, the hero in *The Odyssey* who sets sail for home, must be wary of the Sirens, beautiful seductresses, or as Homer says, those with "honey-sweet" voices who tempt sailors to crash their ships on the rocks surrounding their island by singing tantalizing songs, we must be wary of the "Sirens" of Wall Street, the financial gurus who are courted by the media and get paid enormous sums of

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money for predicting the direction of the stock market. Presently, they are lamenting the dire condition of the economy, the decline in stock prices, and the epic proportions of the credit crisis—the magnitude of which no one has seen before. If we listen to them again, what they are advocating could prove to be nothing but mere guesswork. Or as Circe says in the epic poem, “... and that man who unsuspecting approaches them, and listens to the Sirens singing, has no prospect of coming home and delighting his wife and little children as they stand about him in greeting.”

Like the Greek hero Odysseus, we too must have courage! We too must be aware of these tempting Sirens of the market and not allow ourselves to be fooled by all things emanating from the media. Maybe their information is not literally true and could possibly be sending us the wrong message. Our awareness of this allows us to turn our attention to some truths: that we have a solid foundation of investments in domestic and international securities in many different asset classes, that they have been individually tailored in an attempt to meet our goals and objectives for income or future growth or both, and that bear markets such as the one we are presently experiencing have occurred before. In fact, mutual funds similar to the ones we own now have declined in value before, but, more importantly, the world did not end. The stock and bond markets eventually recovered and moved higher.

The Trojan Horse

Like the Trojan Horse of Greek mythology, the financial fraud perpetrated by Bernard Madoff has deeply affected investors' perceptions about the safety of their assets and the viability of financial institutions as well. I want to reassure you about the safety and security of your assets held for you at Charles Schwab and Company in addition to the honor and integrity of the employees at Paragon Capital Management Corporation. These institutions include some of the finest investment professionals in our industry who put the interests of our clients before our own.

Paragon makes investments for you at Schwab. They act as your custodian by holding your cash and securities. You receive your monthly statements directly from them, statements that disclose all your transactions and balances independent of Paragon. Your money and securities are safe there.

Even the mutual funds purchased for you are safe from failure because you own the underlying stocks, bonds, and securities within each fund. There are no other intermediaries or third parties. There can be no theft of your assets. Furthermore, all of our clients own a broadly diversified portfolio of no-load mutual funds invested in various asset classes. This minimizes risk and provides long-term growth as a hedge against taxes and inflation.

The Cycle of Market Emotions

The enclosed illustration underscores investor emotions during various market cycles. As the chart illustrates, the most risky time to invest is when investors are euphoric and the markets are at all-time highs. Conversely, when markets are at their cyclical lows and people are despondent, this is typically the best time for investors to be in the market. Unfortunately, this is when many investors mistakenly want to withdraw money from the stock market and move it to the safety of money market funds.

The Set of the Sail

I would like to share with you an excerpt from a poem by Ella Wheeler Wilcox. It has always been very meaningful for me. I have used it in many of my talks with students in the local high schools. It is called *'Tis The Set of the Sail*.

'Tis the set of the sails
And not the gales,
That tell the way we go.

Like the winds of the sea
And the waves of time,
As we journey along through life,
'Tis the set of the soul,
That determines the goal,
And not the calm or the strife.

We have winds blowing on us all the time. These are winds of adversity when the economy and the stock markets decline and cause us to question our future. Then there are winds of opportunity when our financial condition stabilizes and things improve. However, it is not the winds that blow on us that is important but rather how we set our sail.

In order to navigate in this challenging financial environment, I need your assistance. I need you to look forward with me beyond the fear and uncertainty. I need you to make the commitment to stay on course and not be diverted by the "Sirens" and falsehoods of the various Wall Street experts. I need you to join me by setting your sail and asserting your commitment to the path we have taken together. For therein lies the truth; it is the set of our sails and not the gales that determine our course in life.

I wish all of you, your families, and your friends good health, happiness, and prosperity in the New Year!



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