



The Market Takes No Prisoners

The market recently retreated about 7% from late-April to mid-June. During that time I received several calls from concerned clients about the health of the economy and the state of the stock market. Their concern was instigated in part by the media hype about the sad state of the housing market, the high rate of unemployment, and the possibility of a double-dip recession promulgated by our leaders in government and exacerbated by anyone looking for bad news.

I would like to address some of these concerns by putting things in perspective. First, the world is not coming to an end as the news shows would like you to believe. Their objective—like any business—is to remain profitable, and their medium is the latest apparent catastrophe to make the headlines. Once they have our attention, they feed on the areas of the brain that acquiesce to our instincts of fight or flight. A case in point is the latest Greek financial tragedy to hit the headlines. In the last 200 years, Greece has spent more than half the time in some type of default or financial crisis and has managed to survive along with the rest of the world.

So I am confident in this: the more you allow the financial markets and the media to dictate how you feel on any given day, the more of a prisoner you will become to your apprehensions.

I think the best way to illustrate this is through the *Allegory of the Cave* in Plato's Republic. In this masterful parable, Plato describes prisoners who are chained in a cave and whose heads are fixed so that they can only see forward. Behind the prisoners burns a fire that illuminates anything placed in front of it. Between the fire and the prisoners is a walkway that allows a group of men, who stand behind the prisoners, to hold up objects that cast shadows on the wall of the cave. Incapable of seeing the objects, the prisoners instead see the shadows on the wall and hear the echoes of the voices behind them. The prisoners have thus mistaken the shadows and voices for what seems to them to be authentic. They are thinking that what is shown to them on the wall is the truth.

Just as easily we can lose sight of what is real and believe the *shadows*—the doom and gloom of the naysayers—are the reality. Just as easily investors in equities sometimes lose sight of what the market represents. Just as easily they forget that the stock market consists of various companies owned in their portfolios in diversified asset classes and that, when held for the long term, have offered higher returns that

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offset increases in inflation and taxes. Unfortunately, if the stock market declines on any particular day, investors hear the noise of impending disaster proffered by the media as they conjure up the loss of their hard-earned savings if their portfolios decline in value. Much like the prisoners in Plato's *Allegory of the Cave*, the fires of misperception fan their fears. They tend to forget the truth that, in reality, their portfolios consist of some of the greatest global business franchises in the world, including companies like Johnson and Johnson with a history of increasing dividends and stable earnings growth. These earnings are engineered into a portfolio that is designed to produce growth and income to offset the high risk of losing purchasing power in the future. If we recall, the cost of a postage stamp in 1980 was fifteen cents. It is three times higher today. In 1980, the S&P 500 was at 130. Today it is over 1300. Investors in the S&P 500 have seen their *portfolio increase over ten times* in approximately thirty years.

In my investment career, which spans almost thirty years, I have been through horrible crashes and severe recessions, and the value of equities has still managed to keep up with the ravages of inflation. Even in the gloom and doom scenarios offered by the media during this time, equities have achieved higher rates of return than bank CDs and created more wealth for investors.

There are many components of life that affect our financial future, the portfolio being just a small part of the whole picture. We have to address issues such as long-term care and health planning. As we acquire more and more wealth, how will that pass on to those we love? How do we protect what has been bestowed upon us? The fact that the market fluctuates up and down on a daily basis has no relevance in our daily lives. Like the objects illuminated by the fires in the cave, we need to recognize the illusory nature of things and the distractions they create.

The portfolios we have chosen have been constructed to meet your long-term goals. Only when these goals change do we need to implement changes in our portfolios. In the meantime, let the markets ebb and flow and let the media grouse and squawk. It is just an illusion we can choose to ignore. Like in the allegory of the cave, when the truth is discovered, the fear disappears.

So our choice is clear: do we behave like a fearful prisoner chained to thoughts about an imminent economic downturn and a global stock market collapse, or do we acknowledge the truth—owning a well-diversified portfolio of great companies in different asset classes is designed to meet our long-term goals and objectives now and into the future. The decision is ours, and the freedom of the latter choice will cast away the shadows of doubt and provide us with peace of mind.

Paragon Tidbits

Tom Snively is celebrating his tenth year with us at Paragon. His professionalism and expertise have helped Paragon bring tremendous value to our clients over the years.

Our kids are doing well. Allison is getting married in October. Chuck begins his second year at medical school. Kimberly, who graduated Villanova University in May, was recently offered a position at ESPN. Sue and I are finally “empty nesters”!

Many of our clients are familiar with the work we are doing in the area of music, emotions and finance. In that regard, we are happy to be associated with an organization called Music and Memory, which provides iPods to patients in nursing homes and allows them to be less dependent on medications.

Enjoy the rest of the summer and all the good things that life has to offer.



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