

Planning & Investment News

WILLIAM F. ROBERTSON & ASSOCIATES

Wm. F. Robertson & Assoc.
G. Richard Truitt, CFP*
1200 Summit Ave., Suite 516
Fort Worth TX 76102
817.870-1242
richard@wfrplanning.com

www.wfrplanning.com

*Securities offered through
GFI neos Wealth Management, Inc
Member: FINRA & SIPC

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I am a sucker for a good analogy, but unfortunately most of my analogies make no sense to anybody but me. But in an attempt to convey our understanding of the current economic situation, I would like to try to expand on one of my analogies in hopes it will better communicate our current investment stance.

PILE OF DEBT

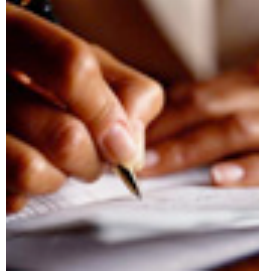
Imagine that the amount of debt in the world is like a compost pile composed of combustible material. Most of the pile is debt is owed by individuals, but it is also composed of corporate debt, government debt, and unfunded government obligations (such as Social Security and Medicare). The bigger a compost pile becomes, the more heat it generates. Our pile of debt is kept from igniting by a steady showering of water representing economic growth. In other words, as we make money we are able to service the debt and, in our analogy, reduce the size of our pile.

In 2006 and 2007, there were indications that individuals were reducing their indebtedness. Though wary, we were hopeful that this could be a continuing trend in reducing the size of the “pile” before it could ignite. Then in 2008, the collapse of the shadow bank system debt, owed by the likes of Bear Stearns, Lehman Brothers, and AIG, was poured on this pile akin to bucket of gasoline. To this day we do not understand how nobody, such as regulatory authorities, financial press, money managers, seemed to know of this volatile problem. In any manner, the default of the shadow banking system debt caused our compost pile to ignite in September 2008.

The U.S. Government, to its credit, acted quickly and decisively to put out the fire. The method used was to smother the fire with more debt. Yet underneath this new debt the “pile” smolders and the need for more water (economic growth) to cool the pile has increased. The tricky part is that a portion of this “economic growth” water will be taken as taxes to be used to pay the interest on the increased debt load.

Situations like Greece are small fires that erupt on various places on this debt pile. And these fires, to date, have been controlled by smothering with additional debt. The world, indeed, has a tricky path to walk to grow economically (increase spray of water) to keep our past profligate spending from igniting.

These risks cause us to remain conservative in our investment decisions. As much as possible we want to “fireproof” your portfolio while remaining positioned to take advantage of market opportunities. We still think that decent returns can be had in this environment, but the rules of yesterday will not be as important as we navigate this difficult market.



William F. Robertson & Associates
G. Richard Truitt, CFP™
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Fort Worth, TX 76102
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richard@wfrplanning.com

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And now a personal note...

I have a cyst in my brain stem. The discovery of the cyst, and the medical help we have been able to enlist, have felt providential. It is amazing how one's view of the world can change in the blink of an eye.

To date my doctors have told me the cyst does not impair my thinking abilities and are optimistic in their prognosis. I want to assure you that we (Sandy, Bill, and I) have put in place procedures to insure your investments are properly managed. We are in the process of shoring up those procedures in case the worst occurs.

I briefly toyed with the idea of keeping my condition a secret. I am not in part because you deserve to know who is managing your funds. My primary reason, though, for letting you know is that I consider you more than clients. I covet your prayers for me and especially for my wife and three girls. As in everything, God is in this and continues to give us small graces as we walk through this particularly difficult period of our lives. One of those small graces is the opportunity to work with each of you.

Richard

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