

## It's Not Always As Easy As 2009

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*"This last week was a not so gentle reminder of the importance of diversifying between investment themes; themes that can perform well in any market environment."*

Last week my high school buddies and I spent a few days on the beach in Mexico. Just as in previous trips, it was a weekend full of horseshoes, beach football, Mexican food, surfing, and us old guys talking about "how cool we used to be". Despite the fact that waistlines continue to expand and hairlines recede, one thing has remained constant: When we get together, our egos are still 18 years old and we're all too proud to admit that we're aging quickly.

So picture this pathetic site; 9 middle-aged wannabe surfers from the desert storming Mexico's toughest surf spot, K38. The locals must still be laughing at the thought of us trying to squeeze our colorless, over-sized bodies into wetsuits that fit us just fine a few years ago. K38 is known for one of the nastiest waves on the Pacific Ocean and should only be attempted by the most experienced surfers. Adding to the danger, the surf report was predicting large swells and big waves. Of course none of us had the sense or humility to surrender to Mother Nature. After all, I'd feel pretty silly wearing my new K38 shirt and not even getting into the water.

My buddy Josh and I were the first to paddle thru the inside breaks and make it out to the larger outside waves. The others were still struggling with the smaller surf and providing more laughs for the locals. I passed on a few good waves. I was pretending to be waiting for the perfect wave, but my arms were just too tired from paddling out that I could barely move. A few minutes passed and a huge 10 foot wave started to form. One of my buddies smartly paddled out further to get over the wave before it started to break. I followed, but quickly recognized that I was not going to make it to safety. The wave was breaking soon and I wasn't going to make it over. As fast as I could, I turned the board towards shore and kicked my paddle into high gear. I could hear my friends cheer, "Whoooooooooooo Whoooooooo! Gooooo Gwilliam!!!!".

The cheers were silenced by the roar of the crashing wave behind me. I said the fastest prayer in the history of mankind and held on for dear life. Amazingly, I managed to catch the wave without getting crushed and stood up for the best 2 second ride of my life. For those 2 seconds I was thinking, "Quick, take a picture. If only the girls in High School could see me now!" Then the wave got a little mad at my audacity and the next thing I knew I was underwater...for a long time. As the wave was getting even with me, I kept thinking that I'll come up for air anytime. I didn't! What felt like a minute was probably just a few seconds, but the wave finally had mercy on me and spit me out of the water. I literally kissed the ground when I got back to the beach. I learned to never pick a fight with a wave!

I thought this might be the most exciting thing to happen to me last week until I was on the phone with a client on Thursday afternoon. At the time of this call, the Dow was down about 150-200 points, but within a few minutes it dropped to a loss of 500 points. I thought to myself, "hmmmm something is up", but continue my conversation. Then, just like the wave unleashed it's fury on me, the market, in about the same time, was down almost 1,000 points! Telling the client that I'd call him back, I thought to myself that there must be a terrorist attack or something. Watching in amazement, I notice my quotes show next to zero buyers of stocks for a

few minutes. Only a few more minutes passed and the markets turned higher, settling in at about 400 points down for the trading day. The market closed at about this level.

Since March of 2009, the US markets have enjoyed an uninterrupted advance of over 70%. The perceived risk of the markets, measured by volatility, has all but disappeared. However, the past week has shown us that volatility is back in a big way! In just a few days, the VIX (a measurement of volatility in the S&P 500) spiked from 15 to over 40. This is the quickest and most amplified movement in volatility since it has been measured.

Working with an experienced advisor who has access to investment solutions designed to perform well despite these volatile conditions is a must. Investors have had it easy the past year. This last week was a not so gentle reminder of the importance of diversifying between investment themes; themes that can perform well in any market environment. Strategies such as IPOM, X-Alpha, Emerald and Liquid Alpha are finding themselves in very comfortable waters. IPOM (Income Producing Options Model), for example, uses options to create income off otherwise idle stock positions. One of the greatest contributors to higher option prices is volatility. The past year was filled with the most difficult conditions that IPOM has faced in over 11 years (a sharp and steady advance in markets with little to no pullbacks). These same market conditions that prove to be challenging for IPOM are going to be difficult, if not impossible, to replicate.

In Mexico, an interesting thing happened after I was finally washed safely to shore. I was thinking back to all the times I surfed well in calmer waves. I then noticed that the experienced surfers had no problems surfing those waves that so easily punished me. They had the right boards, skills and experience. Investing isn't much different. It's easy to have success when everything is advancing, but how prepared are your portfolios if/when the waves get big.

For more information on IPOM, Emerald, and other investment strategies, please visit our website at [www.wattsgwilliam.com](http://www.wattsgwilliam.com) or call 888-324-8998 and speak with one of our advisors.