

# The Rational Optimist™

## The Myth of American Decline

Why National Pessimism is a Waste of Time *By Mitch Levin, MD, CWPP, CAPP*

I've been told that my contributions to The Rational Optimist are often "high level" and "pie in the sky" optimistic. There is an important point I should make from the start: I am overall optimistic (long-term), I am not without the understanding that there will be, no doubt, turbulent and alarming periods ahead.

While that is so, over the long term, I still believe we are the world's greatest nation and I am thankful to have been born during this time, in this country, and to be in this profession. That does not mean we won't have to work hard, work smart, and persevere – for that's how we got here in the first place!

We (you and Summit) are fortunate enough to have a team of highly qualified Wealth Advisors and other professionals to drill down on tactics for you and bring you tips and create awareness regarding your financial environment. I believe in their expertise and thus, I leave most of that type of educating to the experts.

As the firm's CEO and Managing Director, I find it most advantageous to spend my time focusing on the big picture, like Summit's direction, our ability to provide world-class financial service, the changing social, economic, and financial environment, and our long-term

sustainability (such as our recent accomplishments in succession planning). On that note, I wanted to kickoff the first of the 2013 issues by spending some time, on a high level, highlighting why national pessimism is a complete waste of time.

"Investors are seeking safety in addition to growth, and the United States offers a powerful combination of the two."

Plainly stated – the notion that America is in decline is a myth. According to Harry Truman, "The only thing new in the world is the history you do not know."

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Partners Jason Print, Mitch Levin, and Chad Warrick

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# The Gift That Keeps Diminishing

By Jason Print, CFP®, Senior Wealth Advisor

Looking for a nice Christmas gift for that special someone? How about making them a trillionaire? A trillionaire in Zimbabwe at least. Back in January of 2007, Zimbabwe entered the hyperinflation zone. The minimum rate required to qualify as a hyperinflation is 50% per month. The most recent monthly supply figures are ancient history – January 2008. After 2008, the data becomes limited and unreliable.

This is the first case of hyperinflation in the 21st century. Use of the Zimbabwean dollar as an official currency was effectively abandoned on April 12, 2009. As is typically the case during hyperinflationary periods, there has been an adoption of another currency as people seek stability.

A huge devaluation to this extent destroys savings

| Country    | Month with highest inflation rate     | Highest monthly inflation rate | Equivalent daily inflation rate | Time required for prices to double |
|------------|---------------------------------------|--------------------------------|---------------------------------|------------------------------------|
| Hungary    | July 1946                             | $1.30 \times 10^{16}\%$        | 195%                            | 15.6 hours                         |
| Zimbabwe   | Mid-November 2008 (latest measurable) | 79,600,000,000%                | 98.0%                           | 24.7 hours                         |
| Yugoslavia | January 1994                          | 313,000,000%                   | 64.6%                           | 1.4 days                           |
| Germany    | October 1923                          | 29,500%                        | 20.9%                           | 3.7 days                           |
| Greece     | November 1944                         | 11,300%                        | 17.1%                           | 4.5 days                           |
| China      | May 1949                              | 4,210%                         | 13.4%                           | 5.6 days                           |

Source: Prof. Steve H. Hanke, February 5, 2009

and investments. Savings and investments lose substantial value by the day. In this case, one trillion Zimbabwean dollar couldn't buy a loaf of bread.

The culprit of this hyperinflationary period was an extraordinarily excessive printing of dollars which made its way into the money supply. From January to December 2008, the money supply growth rose from 81,143 percent to 658 billion percent. That's quite a leap.

Last I checked on Ebay, you can get a \$100 trillion dollar Zimbabwe Currency for \$4.99 plus shipping.

Since February 2009, after a period of hyperinflation and pervasive rejection of the devalued currency, companies and individuals are permitted to transact domestic business in other currencies, such as the US dollar or the South African rand.

As a result, the Zimbabwean economy has undergone "dollarisation" (the supplanting of a nation's currency with a substitute) and the Zimbabwean dollar has fallen out of everyday use.

**While this example is obviously extreme, it does illustrate the hazards (if hyperbolic) of allowing currency production run wild.** Likewise, this underscores the importance of safeguards we as a nation should have in place and the absolute value of having and maintaining monetary discipline.



Jason Print, CFP®



# Something to Consider:

The people you care about are seeking financial guidance from someone.  
Doesn't it make sense for them to receive this important guidance  
from someone you know, like and trust?  
Thank you for your continued trust and confidence!

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## In Golf, Life, and Wealth: Rely On the Fundamentals

*By Brad Doster, Wealth Manager*

Anyone who plays golf knows that there have been many innovations to the game over the past twenty to thirty years. Everything from new clubs and balls, better manicured courses, and swing or putting coaches, to high speed cameras, learning academies, club fittings, and more.

In light of all these advancements, for the most part, handicaps and scores have not improved. My experience tells me this can only be attributed to a reliance on technology taking precedence over the fundamentals of the game. The first thing Arnold Palmer learned was the grip, a simple fundamental. Looking back, you could say this proved to be pretty successful for him over the years.

Every day the amount of negative news we receive is overwhelming; the looming fiscal cliff, European Debt, North Korea, etc. While it

can be considered more important to know the pulse of the society we live in, it is increasingly important for people in my generation to see through this and focus on the tried and true fundamentals.

Assuming an 8% annual return on investment, a person who puts \$300 per month into their

**“The first thing Arnold Palmer learned was the grip, a simple fundamental. Looking back, you could say this proved to be pretty successful for him...”**

retirement account starting at age 25 should be a millionaire by the age of 65. If he waited until he was 35 to start contributing this \$300 per month, he'd only have \$447,775 at 65. This difference is attributable to the power of compounding interest. By the time I turn 65, I believe social security will be long gone, therefore a



*Brad Doster - Wealth Manager*

strong focus throughout my career on saving, a fundamental to achieving financial security, will be an invaluable mindset moving forward.

Just as in golf, and life, focusing on the fundamentals is a basic concept, though strikingly important. There will be ups and downs with the markets, the world, and everything in between, yet at the end of the day for my generation, the savers, planners, and the ones with a strong fundamental base and commitment to discipline will achieve financial security and accomplish their dreams.

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# The Myth of American Decline

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And Sir John Templeton, legendary investor said, "Among the four most dangerous words in investing are its different this time."

Take a quick look at *Exhibit A*, reflecting the value some of the world's most potent brands, as represented by the following ten companies. Very few of us have a concept as to how one arrives at the elusive "brand value." However, of the ten most valuable brands on the planet, nine of them are owned by American companies. Don't watch the countries, watch the companies.

William E. Conway, Jr., co-founder and co-CEO of the Carlyle Group wrote recently in the Wall Street Journal, "Today we find ourselves in a world of no return, with government bonds paying next to nothing and the yield on high grade corporate bonds at historic lows.

Investors are seeking safety in addition to growth, and the United States offers a powerful combination of the two."

America is characterized by a few of the following, yet too many take these aspects for granted:

- Freedom
- Rule of law
- Confidence in our regulatory agency
- The most admired universities

- The deepest and most liquid capital markets
- Pluralist medical systems

Pockets of innovation which, though imperfect, are highly advanced and function smoothly.

Opportunities for growth in America include not only the four megatrends of industrial and demographic

aspects described in my last article, but also because of a combination of low interest rates, a strengthening housing market, and a significant domestic energy discovery.

**Although many may be paralyzed by fear of the fiscal cliff, frustrated with Washington's partisanship, and mesmerized by politics of the post-Great Recession recovery, any way you look at it, there is no greater place than America.**

Here are some other trends to consider:

1. The profits of the great companies are decoupled from the U.S. economy. U.S. stocks no longer measure the U.S. stock market, they just reflect markets physically located in the U.S. that will rise and fall and are based more and more on events outside of our borders.

2. The vast majority of globalized and American companies have adjusted to lower growth rates in the U.S. and Europe. Add to this low wage growth and cheap wages abroad and little to no inflation and

| Company          | Value (Billion) |
|------------------|-----------------|
| Apple            | 87              |
| Microsoft        | 55              |
| Coca-Cola        | 50              |
| IBM              | 49              |
| Google           | 38              |
| Intel            | 32              |
| McDonald's       | 37              |
| General Electric | 34              |
| BMW              | 26              |
| Cisco            | 26              |

*Continued on page 6 ...*



# Mapping the Basics - Part I: Identifying Key Financial Points for



**A**n increasing number of women are taking the lead in financial affairs – whether for themselves, their families, or in response to an unfortunate loss of spouse. A couple critical questions should be asked (and no, not just by women): “What does retirement mean to me?” And, “how do I determine if I am getting the right advice (and complete advice)?” Many clients we meet who are preparing for life in retirement aspire to travel, volunteer, develop their hobbies, begin a new and exciting career, and more. Whatever your goal, a retirement income plan that's designed to support the retirement lifestyle you envision, and minimize the risk that you'll outlive your savings is critical.

## **What's Your Retirement Timeline?**

Identifying this target date as early as possible is helpful, because when you retire will affect how much you need to save. If you retire at age 55 for instance, as opposed to waiting until age 67, your accumulation period is abbreviated by 12 years. You will also increase the number of years that you'll need your savings to sustain you.

## **A couple more important considerations:**

- The longer you put off retirement, the longer you can build up tax-deferred funds in your IRAs and employer-sponsored plans like 401(k)s, or accrue benefits in a traditional pension plan – if you happen to be one of the few who still have one!
- While you can start receiving your Social Security retirement benefit as early as age 62, your benefit may be 25 percent to 30 percent lower than if you waited until full retirement age. Likewise, your delay of retirement past full retirement age could enable you to increase your Social Security retirement benefit.
- If you are married, and you and your spouse are both employed and nearing retirement age, consider the benefits of staggering your retirements. In circumstances where one spouse earns much more than the other, it can make sense for that spouse to keep working in order to maximize current income and aid the financial transition into retirement.

## **How Long Will Retirement Last?**

The challenges presented by longer lives can be particularly acute for women, who generally live longer than men. While always an interesting experience, one should attempt to estimate life expectancy to better determine the amount of resources needed to carry them through retirement, while maintaining the desired lifestyle.



Chad Warrick - Senior Wealth Advisor & CCO

Such helpful resources include: government statistics, life insurance tables, or life expectancy calculators. These estimates are based on your age, gender, race, health, lifestyle, occupation, and family history. Please keep in mind that these are simply estimates. And it is generally advisable to over-estimate, rather than under. *End Part I*

**Read the February issue of *The Rational Optimist* for Part II of Chad Warrick's "Mapping the Basics" series - addressing how much you'll need, understanding sources of income, and more!**

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there may be a recipe for sustained profit growth.

3. Monetary easing with lowered long-term rates will continue with an ongoing flood of new currency. While some may argue that the only way to handle the industrialized world's debts is through inflation, the world's long-term bond markets are at the lowest rates ever, possibly indicating minimal inflation. So the near zero returns in bonds, regardless of whether one thinks this is a bond bubble, indicates that there could be more opportunity in stocks which merely are portions of the world's great companies.

4. The new energy revolution appears underway, particularly in America. We've got massive reserves of shale gas and oil, cost effective development of arctic hydrocarbon reserves, and new discoveries suggesting that North America has more energy untapped than ever before believed possible – far greater. And America's current production exceeds Saudi Arabia's.

5. The lacking of common amenities of modern life, such as televisions, washing machines, microwaves, may be dismissed as irrelevant when measuring one's level of participation in the economy, yet missing from these observations is any discussion of personal choice. In short, some of our poor live better than the average European middle class.

Let's look back at where things were in history. Were we more or less afraid during the Cuban missile crisis, or the threat of a cold war and Communism's domino theories, or extreme inflation and wage and price controls of just a couple of generations ago? Or were we more or less afraid when the dust ball and the Great Depression hit, or the picking of the Supreme Court, or the Stock Market Crash, or

when the impending fascist dictatorships in Europe were starting to bubble over a few more generations before? And what about the multiple crashes that occurred prior to getting off the gold standard or when a third of the population was wiped out by the combined effects of the flu and World War I? Then there's the Civil War... I mean, we can go back for a long, long time!

**America has faced far greater existential threats than mere accounting errors. And although it has been stated that our country's debt is unsustainable, it's also been said that if something cannot continue, then it won't. This is not to say that we should be like Pollyanna and not take to our government or economy, our culture seriously. The point is also not to say that we should fear that America is going to fall into the ocean or that we will be the harbinger of the next series of "middle ages." Remember, we still have rule of law and property rights. We have well-functioning institutions. We also have a culture of risk and reward, and there are few other countries in the world, if any, where people are continually banging on the doors to come on in.**



The decline of America? Hardly! Some of the trends may be worrisome, and thus, merit serious attention; however, reality persists. While it may be fashionable to decry the number of scientists and engineers China is turning out these days, a single focus on this misses the point entirely.

The article entitled "The World's Best Countries in Science," from Scientific American, October 2012, begins by asking what makes one country better than another. "Publishing research papers is a good way to get a perspective on basic research, the editors conclude. And how many students a nation

*Continued on next page ...*

educates in science and technology discipline is a key metric.” The magazine then goes on to rank the top 25 countries – here is a bit of what they found:

- In research papers, the United States scored a 100. The second place finisher, Germany, came in at 20, China came in 3rd at 19.8. In terms of the number of patents issued, ranked in order of the number of patents issued by the U.S. patent and trademark office in 2011, the U.S. again was the clear winner followed by Japan, South Korea, Germany, and Taiwan. China was ninth.

- In expenditure and gross domestic expenditure on R&D for the most recent year for which the figures are official, 2007, the U.S. was first, China, again with five times more people, and a centrally planned economy still playing massive catch up, was second.

- In higher education, in the number of science and engineering doctoral degrees awarded in 2009, the U.S. is first, followed by Germany, the UK, and Japan and France. China ranks not in the top 25. Thus America remains not only the country where the world’s best science is done, it is the place to which the rest of the world’s best minds come. So you can see that the United States is at the forefront still.

If you read my November/December article, you remember we discussed many positive indicators: we highlighted 3D printing, driverless cars, robotics, and an abundance of energy resources in America, as well as the demographic trends to name a few. Then and now, we examined the multitude of reasons we can and should remain supportive and optimistic in this great nation.

**We have the opportunity born from the great work of our predecessors, perpetuated by our most recent generations, and promised to our children and their children.** We should be good stewards of this opportunity and, while holding our leaders and ourselves accountable, make certain to look deeper than the media, into the truth.

Like Summit’s investment philosophy, we should be evidence-based and logical in our approach. That’s a great place to start.

Make Great Decisions,



## “Finglish” (n) Financial English

Earnings Per Share (EPS) - The portion of a company’s profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company’s profitability.

Sinking Fund - A means of repaying funds that were borrowed through a bond issue. The issuer makes periodic payments to a trustee who retires part of the issue by purchasing the bonds in the open market.

Modern Portfolio Theory (MPT) - A theory on how risk-averse investors can construct portfolios to optimize or maximize expected return based on a given level of market risk, emphasizing that risk is an inherent part of higher reward.

According to the theory, it’s possible to construct an “efficient frontier” of optimal portfolios offering the maximum possible expected return for a given level of risk. This theory was pioneered by Harry Markowitz in his paper “Portfolio Selection,” published in 1952 by the Journal of Finance.



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- What Do Golf, Life, & Wealth have in Common? (Page 3)
- Part I of "Mapping the Basics" for Women (Page 5)
- *Special Message to YOU, the Person Who has Never Opened This!* (Insert)
- Which country experienced an "Equivelant Daily Inflation Rate" of **195 Percent?**

A) China

B) Hungary

C) Zimbabwe

Answer (Page 2)

