

Quarterly Client Letter – 2015 Q2

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July 2015

Dear [client]:

*“Because I said so.”* These were the watchwords when we were young. Then we grew up, and our days of blind obedience were replaced by: *“If I only knew then what I know now.”*

Here’s a summer mind-bender for you. At least in terms of your long-term investment strategy, you’re ahead of the game. You *do* know now that which you will still want to know in the future.

For example, you already know that the heightened levels of uncertainty we’re experiencing as a result of the unfolding Greek debt crisis is the exact kind of market risk we’re always going on about. It’s the kind that drives future expected market returns. It also explains why we urge investors to maintain appropriately diversified portfolios, so they don’t have to take too big of a hit whenever various market factors experience their inevitable turns at adversity.

Don’t underestimate the power of your evidence-based understanding! It means, as a [firm name] client, you know that the best course for you now is most likely the same, careful course you set for yourself then, back when we prepared your globally diversified portfolio for these very sorts of conditions.

[Optional paragraph]

It’s our evidence-based approach that helps us know all this, by the way. A landmark 1958 paper, “[Liquidity Preference as Behavior Towards Risk](http://cowles.econ.yale.edu/P/cp/p01a/p0118.pdf),” laid the groundwork for what became known as the Separation Theorem, which helped us understand that market risk is essential to investing. Without it, we could not expect to earn extra returns on riskier investments. When risk in the form of uncertainty does appear, those who don’t know (or don’t remember) this evidence are likely to panic and place ill-timed trades. Evidence-based fund managers can then be on the patient side of these panic sells, buying low when warranted and positioning you and your fellow shareholders to benefit in the future from any garage-sale prices to be had today. That’s academic theory in applicable action, contributing to your wealth-building goals.

So, let’s celebrate what we already know about prudent investing. Let’s also remember a lesson that Greek philosophers like Socrates taught us: the wisest individuals never stop learning. If you’d like to better understand the historical context and economic implications of the Greek debt crisis, we recommend [this excellent primer](http://faculty.chicagobooth.edu/anil.kashyap/research/papers/A-Primer-on-the-Greek-Crisis_june29.pdf) published in late June by the University of Chicago’s Booth School of Business. If we can answer any questions for you as circumstances unfold, please be in touch.

[Firm Name]