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WHY ARE WE SO AFRAID?

“So, first of all, let me assert my firm belief that the only thing we have to fear is...fear itself — nameless, unreasoning, unjustified terror...”

Franklin D. Roosevelt March 4,
1933 1st Inaugural Address

June 2014

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I've been thinking about this for a long time. When did we, Americans, become so afraid? We keep our kids under near house arrest lest they be molested. God forbid they venture into a park on their own and join a group of other kids for a pickup game of basketball or a make-shift game of fly-up baseball (call me if you want to know the rules). Instead, parents orchestrate every waking moment for those poor little rug rats lest they be somehow traumatized by the outside world. This, in spite of the fact that the number of stranger abductions has been about two to three hundred a year since 1990.¹

And then there's the craze of almost Biblical proportions by Americans to buy and carry handguns. Not long ago, into my office came an old friend who, among other things, wanted to talk about guns. He told me for a long time he's kept a loaded Smith and Wesson .38 cal by his bed just in case someone tried to break in during the night. He's now in the market for another pistol of similar or greater killing capacity. This one will be stored in the magazine pocket on the right side of his Lazy-Boy recliner in the living room. Here's his reasoning: if someone breaks in during early evening while he and his wife are watching television, he won't have time to run to the bedroom, grab the gun and shoot the desperado, so the best thing to do is have another fully loaded revolver within easy reach. Listening to him, you'd think

his neighbors were being vandalized almost constantly and it was only a matter of time until they, whomever they may be, kick in his front door.

This conversation worried me ... was he really living in a crime infested neighborhood where violence lurked behind every bush and tree? According to Lincoln Police Department (LPD) public information, the answer is no. Other than incidents of shop-lifting at a nearby Hobby Lobby store, there has been almost no crime in his neighborhood and yet my friend feels compelled to be armed to the teeth.

And then, just when I thought I couldn't get any more depressed about the state of fear in this country, the *Lincoln Journal Star* carries a front page banner article: *Group wears guns to promote open-carry.*² Apparently a growing number of Nebraskans are, along with my old friend, scared to death and feel compelled to allay that fear by "packing" pistols wherever they go. An almost surreal photo accompanied the article showing a dad in a restaurant holding his six-month old baby in his arms and what appears to be a 9mm Berretta holstered on his hip. What's he thinking? A desperado appears, demanding money or whatever, and he's going to cradle the baby in one arm while unholstering, aiming and then firing three well placed shots in to the chest in the desperado? These folks have watched way too many

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You wouldn't worry so much about what others think of you if you realized how little they do — Eleanor Roosevelt



Why are we so afraid? continued

Clint Eastwood movies! What's a real dad going to do? What would any of you do? Here's exactly what you'd do. Without hesitation, you'd protect the child by putting your body between the child and harms way ... and that's all you'd have time to do. Many years ago I faced a similar situation and I can assure you, there's not enough time to do both.

All this *nameless, unreasoning, unjustified terror*, and yet, according to various sources, violent crimes (homicide, rape and attempted rape, robbery and aggravated assault) are not much changed from twenty-five years ago. That's true for Lincoln, the state of Nebraska and the country as a whole.³

Now, for full disclosure, I both love guns and recognize there are times when only a very foolish person would be unarmed. Take my fly fishing mentor and guide for example: he frequently hikes miles off the beaten path searching elusive cutthroat and golden trout in remote areas of Colorado and Wyoming ... bear and mountain lion country. He needs a gun. Having said that, the guests seated next to me at my favorite restaurant certainly do not.

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1. Last Child in the Woods; Richard Louv, pg 126 Algonquin Books of Chapel Hill 2006
 2. Lincoln Journal Star , May 7, 2014
 3. www.lincoln.ne.gov; www.ncc.ne.gov; www.fbi.gov

The Book Worm

River City Empire by Orville D. Menard. The intriguing story of Tom Dennison, the Boss of Omaha for the first third of the twentieth century. The author was professor emeritus of Political Science at the University of Nebraska at Omaha. A warning; the font used in this book is difficult for the eye and the author's writing style is, at times, hard to follow. None the less, the book is a good read



The Longest Silence by Thomas McGuane. A philosophical and sometimes humorous account of the author's lifelong love affair with fly-fishing. As you might guess, this is not a

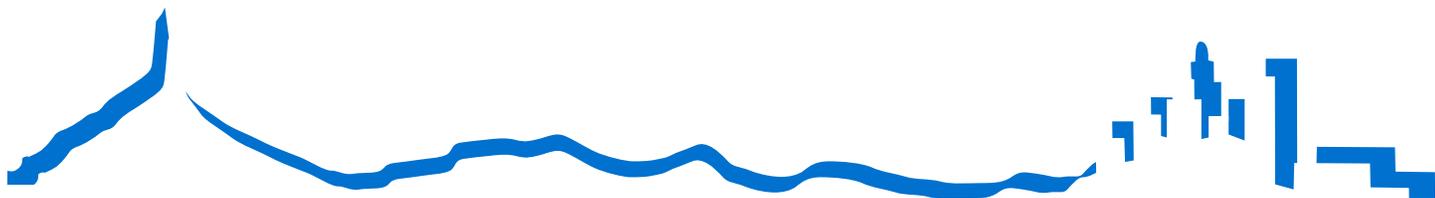
book everyone would enjoy, although the author has a gift for painting pictures with words.

The Hungry Tide by Amitav Ghosh. I seldom read novels, but this was an enjoyable read. Author does a very good job of weaving several story lines together and, at the same time, exposing the reader to a very real and seldom visited part of India called the Sundarbans ; home to tigers, crocodiles and rare river dolphins.

Junkyard Planet by Adam Minter. Travel with the author through a world we as Americans know very little about, the extremely lucrative world of global recycling. Put this one on your must read list.

Housekeeping

We're very excited to announce Ben Klimisch has been offered and has accepted a position with Ernst and Young in Minneapolis. Ben will be leaving us in early August. And we're equally excited to introduce Ben's replacement, Connor Kilmurray. Connor is an actuarial science student at the University of Nebraska here in Lincoln. Like his predecessors, Connor is energetic and excited to have the opportunity to compare what he has learned about finance in school to the real world applications of investing.



Bond Markets

After their last policy meeting, spokespersons for the Federal Reserve finally offered fixed income investors some good news. They projected federal funds target rates would rise to 1.2% by the end of 2015 and 2.5% by the end of 2016.⁴ While still very low by historical standards, they're a heck of a lot better than today's near zero target rate. And better yet, the last time federal funds rates were at these levels (September 2008 and March 2008 respectively⁵), local certificates of deposits rates were as follows:⁶

September 2008

12 Month	2.25%
24 Month	2.45%
36 Month	2.85%

March 2008

12 Month	2.50%
24 Month	2.70%
36 Month	3.00%

4. Wall Street Journal chief economic correspondent Jon Hilsenrath interview June 18, 2014

5. www.federalreserve.gov

6. Gothenburg State Bank 2008 Rate Board, Gothenburg, NE

Stock Markets

According to Value Line Investment Survey (VL), as of June 20, 2014, the median estimated price-earnings ratios of all stocks with earnings VL follows is 18.7. While that number may not be "bubble high" it's certainly not low by any historical standards. I believe historians will look back on this period in history and be very puzzled by American investors' behavior. At the same time they are arming themselves to the teeth with guns to protect themselves and their loved ones from personal risks, they are exposing themselves and their investment portfolios to more and more financial risks. And I think I know why.

I believe the past several years of near zero interest rates on short and intermediate term fixed income investments have forced many *traditional savers* to extend maturities, accept lower credit investments (junk bonds) **or** seek alternatives forms of investment, the last often being dividend-paying equities. This migration to dividend-paying equities has exposed those traditional savers and their portfolios to the risks of price volatility they have historically chosen to avoid. This migration has also had an impact on *traditional equity investors* by driving up the prices of those dividend-paying equities and making any new equity investments that more challenging. Just a word of warning: *equities, even those that pay attractive dividends, are for investors willing to take both the ups **and** downs that inevitably occur.*



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Investment in common stocks and bonds, whether individually, through mutual funds or unit trust always involve risk and therefore may not be suitable for all readers. Before investing in mutual funds, ask for and read the prospectus for complete information on charges and fees.

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