

A Brand New Trend

Purpose

The *CJ* Investment Newsletter deals with the entire spectrum of securities investing, including cash (money market funds), bonds, equities and options. It will evaluate the overall investing environment and then discuss the relative allocations of these asset types, as well as appropriate strategies to implement within them. Essentially, it reflects what I'm actually doing with my clients.

These letters are not sent "cold." Either I know you or someone you know gave me your name. Yes, this letter *is* a sales tool. It communicates how I apply my investment strategies, so that you can decide, without any sales pressure, if my thinking is compatible with how you want your money invested. If you're not already a client, I would like to discuss your *becoming* a client. Please call me for more information.

However, that's not its only purpose. Even if you never become a client, if you want this information, I want you to have it – for a while, anyway. My hope is that providing this information and teaching you what I think is important when investing may help you. Please contact me if you have any questions or comments. I'd love to hear your reaction to my letter.

The *CJ* Growth Strategy (back page) has been an ongoing aggressive growth model portfolio since 1/98. Its results continue to be tracked herein.

Quick Look

Market



Next Expected Move



- Callom registers a new Registered Investment Advisor, Trend Capital Management, LLC effective 3/18/10.
- I explain the reason for the change. A needed business model drove the change, not the other way around.
- All things cost something. Unfortunately, one cost of this change is losing my long-time business partner Marsha Swanson.

The Need for a New Business Model

As I entered the huge bear market I believe may still be with us back in Q4 2007, it became clearer to me that investing in the market was going to require nimbleness it had not required in the previous several years. I had managed to work successfully in the retail (commission) model of investing since I began with Perkins, Smart & Boyd, Inc. (PSB) in 1997. Now, I found myself in an increasingly dangerous and changing environment, one I thought would require increasing nimbleness to navigate.

The problem I saw is that the retail model carries a lot of transaction friction (costs like commissions, ticket charges, handling charges, etc.), which means that increasing

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nimbleness would mean increasing client costs due to additional transactions. It would also mean a lot of phone time for both my clients and me in order to get the necessary approvals to make the moves I thought best during the time.

Churning is a term used in securities investing meaning that transactions were done for no purpose other than to generate commission income for the broker. On the darker side, increasing nimbleness in the retail environment would bring up the specter of possible churning in the eyes of regulators, even if there were no such intent. After all, what does a broker do besides lay out his/her case for buying and/or selling securities and state that in his/her professional opinion, these moves were in the best interests of the clients? What if the regulator doesn't agree with your professional assessment? What if some of your clients don't? What if your recommendations, although well reasoned out, turned out to be wrong?

Everyone is happy when you're making good decisions and making him or her money. However, I've heard of family turning on each other over bad investment decisions. In the retail environment, the pressure to make correct decisions is very heavy. Even the best brokers will make mistakes sometimes. Bear markets magnify the importance of mistakes because other investments don't pick up the slack for the rest of the portfolio as they do in a bull market.

The commission load of a securities transaction carries a great potential for abuse, and when times require a great deal of nimbleness, as I think these times do, that can present a great deal of cost to the client and the potential of a regulator ending a good and honest broker's career.

I've never felt badly about having cash balances, even large ones, if I couldn't find investments that I was comfortable putting clients into.

Still, that wasn't enough. I need the ability to protect clients by being able to react to a rapidly changing market environment. I needed to remove the cost of commissions and ticket charges from the client in order to perform at a higher level. What is it worth to know you can make a mistake and rectify it as soon as you recognize it *at no transaction cost to your clients?*

Churning can't exist in a fee-based model. The additional ticket charges would be absorbed by me without generating revenue. This eliminates any

desire for a sane broker to make investing changes other than for the purposes of improving performance of and/or reducing risk.

Fee-based discretion is an investment model that incorporates two basic concepts:

- Instead of commissions, quarterly fees are assessed upon client assets under management (AUM) at a predetermined rate. The IAR may choose to charge or absorb sales commissions and ticket charges. I will absorb them.
- Clients agree to give the advisor discretion (trading authority) on their "advisory" accounts. The IAR (Advisor, Manager) can authorize securities transactions in client accounts without immediate prior consent by the clients. Effectively, IAR's act as "securities agents" for client accounts.

I feel that the fee-based, discretionary business model gives me the capability to perform at a higher level than the retail model does. I approached PSB about adopting this model. The owners, as is their right, told me that they were not set up to allow that model to be used and they were unwilling to make the changes necessary for me to adopt the fee-based discretionary model.

I was convinced the fee-based discretionary model was what I needed to do to take care of my clients as best as I can. Therefore, Callom no longer fit together with PSB. I had to find a place where I could do business in the fee-based discretionary model.

Trend Capital Management, LLC

This is probably more than you ever wanted to know about the securities industry in America, so, if this doesn't interest you or you already know it, skip ahead a paragraph or so to where my relationship with these companies is specifically laid out. If you get dizzy from an overdose of acronyms, welcome to my world!

In America, a "broker" (Registered Representative, RR) or "Adviser" (Investment Adviser Representative, IAR) has to work for a larger organization, respectively, a broker-dealer (BD) or an Advisory Firm (Registered Investment Advisor, RIA). Many firms are both BD's and RIA's, so they can have both Registered Reps and IAR's working for them. There are different levels of responsibility, with the IAR and RIA having greater fiduciary responsibility and tighter restrictions on them.

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Asset Allocation Percentages CJ Current Suggested Ranges

Dow Theory Market Phase: BEAR
Appropriate Current Allocation: DEFENSIVE

<u>Asset Class</u>	<u>Conser- vative</u>	<u>Aggres- sive</u>
Money Market Funds	70-10%	55- 5%
<i>Long Positions:</i>		
Bonds & Bond Funds	30-60%	40-60%
RD Stocks	0-10%	0-10%
Growth Stocks	0%	0%
Gold Equities/Funds	0-20%	10-30%
Bear Market Funds	0- 10%	5-20%
<i>Aggressive Positions:</i>		
Shorts and/or Options	0%	0- 5%

Notes:

Income generating portfolios may not conform to the above guidelines. If income is the primary purpose of a portfolio, income needs are met *first*, then other allocations are made.

Up to 50% of bond/bond fund positions should be in international (non-US) bonds. I expect such bonds will provide higher interest paid on the face due to the additional *perceived* risk of foreign bonds, as well as providing hedging gains if the dollar declines against foreign currencies due to Fed monetary policies.

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PSB is a broker-dealer, but not an RIA. Only RIA's can have IAR's work for them using the fee-based discretion model. That is why, even though I was qualified to be an IAR, I could not hold myself out to be an IAR or use fee-based discretion at PSB.

Because I'm a PFS, Kansas (and almost all other states) will accept my existing designation as sufficient achievement to warrant an IAR designation without examination. I guess they figure I've already suffered enough getting the PFS!

That still left the issue of finding a compatible RIA for me to work for as an IAR. I explored some local offices of national RIA's in both 2008 and 2009.

Unfortunately, I had to take a hiatus from the search for a few months after having a partial knee replacement in 12/08. There were complications, and I really wasn't "back on my feet" until early 6/09.

(It's okay to laugh at that one.) In fact, I spent about two months on crutches in Spring, 2009. Having been on crutches as a kid, I didn't remember it as being too bad. Wrong! I didn't really find it much fun.

After resuming the search and almost coming on board with a very professional RIA nearby, I finally arrived at the conclusion that I needed to create my own RIA in order to achieve all I wished to achieve in this endeavor. Finally, I created Trend Capital Management, LLC in the state of Kansas and began in mid-December, 2009 the long, arduous process of getting Trend Capital registered in Kansas, while taking care of my clients as a RR at PSB.

I feel lucky to get a name like Trend Capital. In fact, I was really surprised the name was even available. Trend Capital is more than a name; it's descriptive of my investing style. The old adage on Wall Street and in investing is "The trend is your friend." I believe that one of the tenets of superior investing in terms of both safety and performance is the identification of trends and their exploitation. My investing style uses economic analysis, fundamental analysis and technical analysis to attempt to identify and catch trends, much as a surfer finds and rides waves.

In this sense, "exploit" means "to take advantage of; UTILIZE" not the media's constant use of exploit as "to make use of meanly or unjustly for one's own advantage." I prefer to use the FIRST, positive definition. I choose to use "exploit" to mean "maximizing profits" by recognizing and following trends – both bull and bear. I am excited to begin trying to exploit what I've prepared for years to do.

I would like to thank PSB for handling my resignation with total class and grace. I thank my clients for coming from PSB to join me with my new business model.

Marsha Swanson

Change always has a cost, and one of those costs was the loss of Marsha Swanson as my business partner. We had been together since early 2003, a very long time for two "brokers" to remain partners. If Marsha had come with me to Trend Capital, the regulatory environment would have forced fundamental changes upon our working relationship that neither of us wanted. Therefore, we dissolved our partnership amicably. We are still friends and we still regularly discuss economics, politics and investing at the higher levels, but we no longer discuss specifics concerning clients or securities. Thanks, Marsha, for being a great business partner for all these years!