



Letter to the Editor – Jeremy Grantham

By Robert Huebscher

April 24, 2012

The following is in response to Jeremy Grantham's commentary, [My Sister's Pension Assets and Agency Problems](#), which appeared on April 19:

Dear Editor:

Mr. Grantham, I have had a remarkably similar experience to what you described in your commentary. In fact, I continue to feel the pain of the huge equity decline that began in the spring 2000 and mercifully bottomed in December 2002. The tech bubble that had been so generous became a vicious killer of wealth. It left few survivors.

As the equity markets dove for their lows and as the NASDAQ composite seemed destined to give up all value gained over the past 50 years, I methodically reduced the exposure of our clients' portfolios. First, I raised cash by selling our weaker positions. Suddenly, every position we had was weak so I started raising 10% across the board, then another 10%, etc. At the end of 2000, our positions were down but we were "outperforming the indices." I proudly noted this accomplishment in our annual review.

As 2001 continued and as traders pushed us exponentially lower, we began to get telephone calls from our "weak" investors. We saved most, but lost some. I wasn't surprised. This continued through the year as I answered the same question over and over, "Why don't you just sell everything?" My reply was, "That is not the proper strategy because you will surely miss the initial bounce of the market off of its bottom." Our solid investors understood this logic and understood that having portfolios that were "only" 60%-70% invested in the market debacle was, in fact, the right thing to do.

Not selling everything had been pounded into my head as far back as the early 1970s when I was with Merrill Lynch. At the time of the tech bubble, I had come a long way. I was doing my job exactly as I had been trained and exactly as I believed was correct.

In 2002, the market showed no signs of reaching a bottom and I realized that no capitulation had yet taken place. It was a bad moment. The NASDAQ was a disaster every day. I had little or no investment in OTC stocks and I reached a low of 40% invested and 60% cash.

At that point, I knew I had to make a stand. In November and December, I was approached by our very best and largest portfolios. These were families that had been with Oxford Capital Groupe for years. They were my friends! They wanted out. Completely out! I begged them to hold on just a little longer. I promised them that this was



almost over. But they cashed in all of their investments. Two of these families closed their accounts within weeks of the bottom. One closed their account within days of the bottom.

I did my best to protect my clients. When it was over, my firm's AUM were down about 70%. My personal portfolio, which I never gave a moment's thought to for most of that time, lost about 80% of its value. It was the worst financial loss of my life.

Today, I still remember that experience like it was yesterday. I have recovered and business is superb. Do I wish those investors had listened to me? Absolutely. Do I blame them for leaving? Not at all.

I learned an important lesson. As a portfolio manager, we might be doing the right thing, outperforming the indices and having conviction in our predictions, but if an investors says he or she has lost all the money they can afford to lose, then it is time to sell that portfolio. I protected my clients and almost went out of business.

I enjoyed your article, Mr. Grantham.

Yours truly,

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