



Investment Advice | Personal Financial Management | Business Consulting

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Gold Standard

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An investment in gold, more than any other single holding, raises all kinds of passions and questions.

Why do we own it?

Is it held as a currency hedge?

Is it in there to serve as an inflation hedge?

Is it a deflation hedge?

Or, is it an alternative investment held for risk reduction?

Actually our answer is none of the above. We bought it, purely and simply, because we felt precious metals would benefit during periods of uncertainty and gold was the easiest for us to quantify.

Irrespective of its role or our intention, we are happy we owned it for everyone. We've held on to this position for a couple or three years now and

have profited meaningfully. In fact, our allocation started in the 2% to 3% range yet in recent months it had grown to represent nearly a 5% position. It was the appreciation in the price (profit) that caused this relative size to burgeon.

Over the past couple of months we started reducing this position. You may have noticed. We certainly have. We've been receiving a ton of calls. "Why are we selling gold? It has done so well! Do you think things are getting better? Are they worse? Shouldn't we be buying more? Why? Why not?"

No single holding in our investment recollection has elicited more sheer emotion than gold has. Passions aside, our response is that we treat this investment just like everything

else. We do not fall in love with any given asset.

We decided to trim this only because it has grown too large relative to other holdings. From a portfolio standpoint it is now too heavy. Its risk profile has grown. So, we are reducing risk and temporarily moving some of our profits to the sidelines.

Gold is not our standard. Our standard is risk minimization. Our job is to lower both the volatility and the probability of loss.

We find passions don't pay many bills.



Three Stages of Delusion

Does this progression sound familiar?

Stage One:

“There is absolutely no problem,”
our politicians and financiers tell us.

“Don’t worry.”

Stage Two:

“Well, I guess there may be a problem
but we are already on top of it. It is
well contained. Don’t worry.”

Stage Three:

“Whoops. There is a problem. It
is serious. But rest assured, it’s
someone else’s fault.”

We have seen this play out before
with sub-prime mortgages,
Deepwater Horizon, and the collapse
of Lehman Brothers. We are now
seeing this unfold in Europe.

Our concern is not about the
stages of deception but about the
underlying investments that are
supported only by the good office
and official promises (and great lies)
of higher authorities.

“Don’t worry”, the stakeholders are
told, “The chance of default (by us)
or loss (to you) is remote. There is
no problem.”

*“ ‘There is absolutely
no problem,’ our
politicians and
financiers tell us.”*

Our challenge as your manager is to
understand that this type of deception
exists. It is more the rule than the
exception we’re afraid.

Our goal is to read carefully between
the lines when selecting your holdings,
or avoiding others. Where’s truth? And
conversely, what might be early Stage
One hokum?

There will always be winners and
losers and there will always be
alternative means to make money.

We get especially nervous though
when someone tells us there is no
problem. These very words have a
tendency to set off our red-light flare
system.

But what does happen
to the value of their
holdings when the
truth is finally
exposed and
official promises
vanish? What
happens
when Stage
Three reality
arrives? The
short answer is that
investors lose money and
in most cases it is permanent.



Good Ol' Uncle Scrooge

Forbes Magazine (with apparently far too many square inches to fill) recently conducted a survey of the Wealthiest Fictional Characters.

You may recall, *Forbes* is the circular that is always surveying wealth and income in every walk of life. What is the biggest company (Exxon)? Who is the wealthiest American (Buffett)? What is the richest baseball team (Yankees)? But fictional characters, now this was way out of the box.

“The real question is how can your money provide you with both personal happiness as well as security?”

Low and behold, Scrooge McDuck walked away with their top imaginary honors, and it was a landslide. Good Ol' Uncle Scrooge weighed in with a cool \$44 billion. He trounced other luminaries such as Jed (Beverly Hillbillies) Clampett, Richie Rich, Artemis Fowl the Second, and Gotham City's own Bruce (Batman) Wayne. You may not remember Scrooge, but I

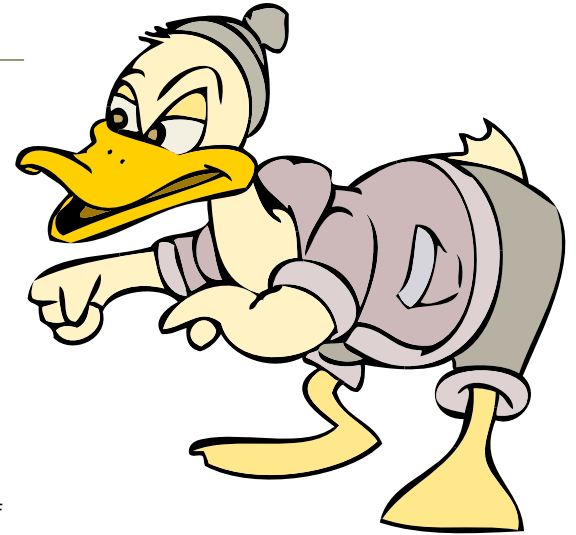
sure do. For me the entire article was a blast from the past. You see I grew up with Donald Duck comic books and I quickly calculated that his Uncle Scrooge would probably be around 150 to 200 years old today.

One was always left to wonder whether this penny-pinching, gold hoarding, miser ever had a change of heart. He was reputed to have never given anything to any charity. He still was thought to have the first dime he ever earned.

Forbes recalled that Scrooge once invented a capsule so he could regress in time to use an expired coupon. He swam in his gold coins for exercise. All of his early morning hours were spent in his vault cushioned atop his multiple stacks of \$1,000 bills.

Money was his only friend. Donald's cagey offspring Huey, Dewey and Louie pretended to be his ally but one is left to wonder whether, after all of their deviousness, they ever secured as much as one thin dime.

Scrooge might have been some sort of idol to this wide-eyed nine year old but it is my observation that now, after spending my entire life in the very business of accumulating wealth, less than half of it is about making it (sorry to break the news Scrooge), with the



Disclaimer: Due to excessive licensing fees charged by McDuck Industries, we are unfortunately not able to include an actual image of Scrooge McDuck. In his place, please let us introduce his previously unknown cousin, Cranky McDuck, who was willing to pose for bread crumbs.

equally challenging task to learn when and how to enjoy it.

So when do you have enough? Or how do you know you are on the right path? When can one accept that money is really only a tool? The real goal is to find how your money can provide you with both personal happiness as well as security. This may be the truest money goal of all, yet the most daunting.

Scrooge, on the other hand, is different from you and me. According to *Forbes* he must still be alive and, if not, don't worry I'm sure he figured out how to take it with him.

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Giving Back

We are frequently called upon to share our time and knowledge with those in need or those without a solid foundation in the area of financial management.

We do not find this to be a burden, but rather our responsibility.

Financial advice is needed across the board. And our experience suggests that the basic principles of personal finance are rarely taught in schools.

That said, we are big proponents of doing what we can to enhance our communities in the areas of financial education.

With regards to volunteer work, Jon recently led a six

week financial management class as well as a one day class on financial tips for couples planning to get married at SeaCoast Grace church in Cypress.

Mark has recently become a founding member of the Orange County chapter of Advisors in Philanthropy (AIP), a non-profit designed to train and support advisors in becoming more involved in philanthropic planning with their clients.

Dick recently gave a lecture on financial balance and risk management to a local group (Vistage) comprised of CEOs and leaders of businesses based here in Orange County.

We recognize the importance of doing this. We have seen the impact.

At the higher education level, and something we are quite excited about is our relatively new affiliation with UC Irvine.

In 2010, we were asked to become Charter Members of The Center for Investment & Wealth Management (CIWM) at the Paul Merage School of Business at UCI.

The CIWM was founded to connect UCI with the investment and wealth management community in Southern California.

Since 2005, the CIWM has become a leading resource for innovative programs that enhance and spotlight the fields of investment and wealth management.

Through philanthropy, working with students, teachers and local community leaders, both RS Crum and the CIWM are well positioned to continue giving back.



*For additional information about the CIWM, please visit:
www.merage.uci.edu/researchandcenters/ciwm*