

Genesis Wealth Management



Do You Believe in Capitalism?



I know many of you are very concerned both about the recent stock market volatility and our future financial well-being. Let me share what I have learned about capitalism and economics in general. Hopefully, it will give you some insight into the recent market turmoil.

Capitalism is not perfect, but it represents the best economic alternative under the sun. Why am I saying this and why is this important? Simply put, when we invest in equities (stocks), we actually own something. We are afforded the opportunity of investing in the capital markets and the profit incentive.

As an example, every time Apple sells an iPhone or an iPod, we participate in their potential profit. Whenever they sell a product we participate in these markets all over the world by owning their company's stock. If companies profit their share price ultimately reflects this profitability. In an effort not to be one-sided and paint an overly rosy picture, we also participate in the Enron's of the world when they go

bankrupt. If companies do not profit, they shut their doors.

This is Capitalism! Have you ever seen a local restaurant go out of business? Of course you have. It doesn't mean people stop eating. Rather, they just eat elsewhere and the other restaurants now benefit.

Unfortunately, we don't know in advance who the next Apple or Google will be. We do, however, know this: Capitalism is undeniable. It works! Corporations and individuals are in business to earn profits. In 1776, Adam Smith, social philosopher and the father of economics, wrote, "it's not to the benevolence of the butcher, the baker or the brewer that we should expect our dinner, but to their regard for their own self-interest."

What this means is that individuals constantly pursue their own self-interest in areas such as science, innovation, art, and education. They thus advance their own societies in visible ways. Countries like China, Russia, and India have embraced the idea of Capitalism because they fully understand that it is the engine that fuels growth and prosperity. Have they not advanced their societies?

Unfortunately, Capitalism is not perfect. For example, stock market gyrations, however unpleasant, are actually perfectly normal. There is

nothing new or unusual about a 10% or 20% market correction. It is also understandable that given the frequency of these downturns, investors feel very edgy.

Our current crisis is not a financial crisis like the one in 2008, but rather a political one! Companies are stocked with cash and corporate profitability is at an all-time high. Investors are usually rewarded when they have a sound investment strategy, are fully diversified, and have the appropriate asset mix.

Our portfolios are low in cost, very diversified (over 12,000 stocks in 40 different countries), and grounded both in economics and in the belief that capitalism and free markets work. Our bond portfolio is very high in quality, and low in duration. Taken together, these reduce both default and interest rate risk.

See you next time.

—Mario

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