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INSURANCE

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I own a house and I imagine that you do as well. I also have an insurance policy on my house to protect me in the event of certain outcomes. In my entire life, I have never experienced a house fire, burglary, vandalism, or any other catastrophe that would cause me to file a claim on this insurance. Year after year I continue to pay the premium. Not only do I not get any return on this money, I do not even get the return OF this money. It is just gone. A total loss year after year after year.

Yet I have never once thought to go to sleep at night and pray for a fire. Not even a little bitty one that would cause nothing more than smoke damage, but would at least get me some sort of payback for all the premiums I have paid. Nope, I've never done that. Nor have I ever considered dropping the coverage. Instead, I go to sleep each night thinking how grateful I am that I have had such a lousy return on this investment. In fact, I even pray each night that I will continue to get exactly the same results forever.

I buy this insurance because I know, without any doubt whatsoever, that a certain number of these events will occur each year. None of us knows when or to whom this will happen. If I should ever be unfortunate enough to experience this, then the insurance will prevent what would already be a horrible event from becoming a financially catastrophic event as well.

The same is true for your investments.

You live your life knowing that catastrophe exists, will manifest in some unknown time and place, and might one day touch your world. You can accept this and hope that trouble bypasses you, or you can accept it, hope trouble bypasses you, but take action to try to reduce the impact if it does not.

Last month we spoke of the opportunities that seem evident in the stock market today. There are many, many things I see that make me believe that the market can go much higher before we see any serious trouble. High up on that list is the reduced supply of and increased demand for equities. Companies are being taken private at a rapid pace while new companies coming public are in very short supply. Combine that with increased demand from the huge amount of (borrowed) money seeking SOMETHING to buy and you have a formula for rapidly increasing prices. Add the development of China, Russia, Brazil and India and you have fantastic, never before seen growth opportunities. The next few years, possibly decades, hold amazing, extraordinary possibilities for wealth creation.

But there are also increasing risks. They can be summarized by saying that the need to invest the liquidity sloshing around the world is outweighing the fear of risk in how that money gets invested.

These risks can cause some painful bumps along the way and this time they exist across ALL assets—bonds, gold, oil, art, real estate, stocks, currencies, banks, crops, metals—and also across all countries. Even if you wanted to avoid all risk, there is no “safe” place to hide. There is nothing you can buy and be absolutely certain you won't be hurt. Money is flowing into everything with the same urgency to get invested, so we simply can't know where or when trouble might arise.

While we need and want to participate in these extraordinary times, we must balance our opportunities with actions to protect our gains and minimize our losses. My job includes reminding you of the opportunities when things look bleak, and sounding a note of caution when all is going well. It does no good to gain extraordinary profits just to give them all back later. The two greatest protection devices are diversification and selling. Where appropriate, we will now add some hedging and options to this mix. Meanwhile, we will continue to participate in these most exciting of times.

As always, please let us know if there are any changes in your situation that would affect your investments and THANK YOU again for your referrals.

Cindi Showalter