

## **OUR APPROACH TO INVESTING**

### **WEB BUZZ 2009.03.02**

The following was a response to a magazine request asking *What Do You Do for Your Clients?*, and what we bring in terms of creativity and uniqueness. We wanted to share our thoughts with you.

In June of 2000, Central Plains Advisors, Inc. advised all its clients to sell common stocks and invest in government bonds. Why? It was obvious that P/E ratios were at historic highs. Based on the S&P 500, the P/E ratio was around 30x, well above historical tops of 21x. Also, price to cash flow, price to sales, price to book value, and dividend yields indicated the market was grossly overvalued.

As a typical investor has only 20 years in which to invest, the time for conservatism was clearly at hand. Central Plains Advisors, Inc. accounts since 1999 (2000 through 2008) have obtained an annualized total return of 9.1% after the firm's highest fee. This compares to an annualized total return of minus 3.6% for the S&P 500 and, by the way, the Lehman Government bond index returned 7.1%.

The principals at Central Plains Advisors, Inc. follow the Austrian economic model. This model has proven over the years (early 1900s to date) to be much more reliable than Keynesian economics, which is followed by most advisors. They believe that if one adheres to the Austrian economic philosophy, while at the same time having a sense of market history, one can achieve above average returns.

In addition to the above, Central Plains Advisors, Inc. believes that human behavior plays much more of a part in market valuations than do statistical formulas that have evolved out of modern portfolio theory and efficient markets hypothesis. The University of Chicago and others in academe have attempted to reduce economics and investing into a physical science, as opposed to a social one, which it clearly is.

**Rather than constructing a portfolio based on using most asset classes and relying on various correlations, one should evaluate the economic future and pick those asset classes that should do well under the forward perceived economic circumstances. As the economic world is cyclical and not linear, valuations of the various asset classes becomes paramount in determining their usage.**