

## Through The Looking Glass

By J. Bryant Neville, Executive Vice President, CFO  
Bank of McKenney



Many are concerned about the “state of the economy” on state, local and national levels. Virginia is on the rebound in 2011. In fact, Forbes recently ranked Virginia as number two on the business opportunity scale. This is not to say that the Old Dominion hasn’t had its troubled localities and sectors, but the degree of impact has been

far less negative in comparison to most other states. The state even boasted a \$400 million budget surplus last year. However, the road was painful involving layoffs, program cutbacks and pay freezes. I perceive that our local economy is much like that of the state’s average. Housing remains sluggish, but there are signs of improvement and stabilization in housing values. The Tri-Cities area has been fortunate with the building up of the Fort Lee base during the recession, keeping many employed. Bank of McKenney had to boost reserves and write off or down some of its credits that were more negatively impacted. Nevertheless, Bank of McKenney never took any TARP money from the government, always earned a profit, experienced core balance sheet growth every year and never missed paying an annual dividend to our shareholders.

Another question I am often asked is, “How do we fix things on the federal level?” I have always been a proponent of setting term limits for all politicians. In my opinion, if we eliminate being re-elected from the decisions, hard choices would be based totally on the good of the people. Second, our leaders need to put aside hard line ideology and listen to each other. Tax loopholes for the wealthy are extreme – a claim openly voiced by one of America’s wealthiest, Warren Buffett. I also think the corporate tax rate should be slashed in half to be competitive with other global economies. Doing so would significantly increase business activity, as well as fix unemployment problems. The majority of tax revenues come from individuals. Full employment revenues would far surpass those sacrificed by lower corporate tax rates. Again, these are just my humble opinions meant to offend no one. What I do see through the looking glass in this country’s future, should our path go unaltered much longer? Greece. How’s that for scary? ■

## The Sky Is Falling, The Sky Is Falling! Or Is It?

By G. Carl Mahler, Jr. CFP®



Sometimes it's really hard to be a patient investor, much less a successful one! I write this the week after the markets went on their wild, historic ride, with the DOW rising or falling over 400 points, on four separate days during the week of August 8th. Given the volatility that seems to have become the norm rather than the exception, I wouldn't want to venture a guess

what will happen nor where the Dow will end up by the time you receive this article. One thing I can feel confident in saying is, "it has become most difficult to remain a long term investor in a short term world".

These are (again) the times that try men’s souls. It is inherent in the nature of the financial markets to periodically draw back, to give back some of the gains it has offered. Some feel that it does so teasingly, that every new high in the market producing new highs for their net worth’s, is all theirs. That’s just not the case. The economy routinely expands and contracts, pulling back in some of the high water mark. But, this too, proves temporary as long term results show it does ultimately give us new highs and added wealth. It just doesn’t take a path that pleases most. That’s why the vast majority of Americans aren’t wealthy.

Helping each of our clients achieve their goals drives all of us at Pinnacle Group. I have previously told you how mindful we are of the enormous responsibility that comes with serving as a steward of other’s capital. Many times the greater challenge is addressing the psychological factors associated with investing rather than the fundamentals. This is, again, one of those times.

I don’t know if you recall studying Greek mythology in high school. I remember it slightly, but I don’t recall any particular fascination with Janus, the Greek God with two faces, who symbolically looked simultaneously into the future and the past. I seem to find myself more fascinated than ever with him as I review history of the financial markets in order to find similarities and comparisons to make some sense of today’s markets. Surprisingly, they exist and have offered me a sense of comfort as they follow close lines of the past. And from that I have taken solace in the fact that sometimes, seemingly insurmountable problems have always been overcome, and the markets that have run backwards during the fray, ultimately advanced to new highs.

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Carl was named in Barron's 2010 Top 1000 Advisors in America and was featured in SMART Money Magazine, Virginia Business & The Wall Street Journal.\*



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We have been expecting a market correction since December, if for only the fact that the US equity market has gone pretty much straight up for the last 30 months from the lows of March, 2009. Market corrections are part of the process and are usually triggered by events. Early August's market reacted to the recent game of chicken Congress played with the debt ceiling as well as continued "2008-like" debt problems in Europe. Subsequent days and weeks will each have it's own triggers, many of which get labeled "this time is different".

I hate to sound like a Perma Bull but I've been at this a long, long time, and every other time that's been labeled different, therefore requiring some dramatic action has, for almost everyone taking that action, proved to be a mistake that caused them to see their net worth's suffer and lose valuable momentum towards the achievement of their financial goals.

I'm not saying the volatility we've experienced over the last decade hasn't caused us to build our portfolios differently, including more Alternative Investments and incorporating managers with a "go-anywhere" capability to try to mitigate risk, but to pull out totally is generally fatal. So, if you've been prudent in building your portfolio with enough income to tide you over while the storm rages, leave the rest alone. You'll be better off for it. ■

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