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Will The New Silicon Valley Transform The Economy?

Storied Silicon Valley fueled the computer and Internet booms with a potent combination of technological know-how and entrepreneurial drive. Now Northern California innovators are focusing on a new realm of opportunity—clean technology.

Venture capital firms have been pouring money into “green” technologies related to renewable energy, transportation, information technology, solar cells, biofuels, and other emerging industries. A record \$8.4 billion in venture capital went to “clean tech”

companies in 2008 in North America, Europe, China, and India, up 38% from \$6.1 billion in 2007, according to Cleantech Group, a San Francisco-based research firm.

Solar power ventures accounted for nearly 40% of the 2008 total, followed by biofuels at 11%, Cleantech Group reports. Other industries that drew funds included transportation, smart-grid developers, small-scale wind turbines, plastics recycling, green buildings, and agriculture technologies.

While clean tech investment slid about 4% in the fourth quarter compared with the same quarter a year earlier, proponents don’t believe the current economic slowdown will halt the field’s growth over the long term. “We’re in the first chapter of a century of opportunity for clean tech,” says Ira Ehrenpreis, a general partner in Palo Alto-based Technology Partners and chairman of the 2009 Clean Tech Investor Summit held in January. “The problems addressed by clean tech are the most fundamental

problems we face in the 21st century, and we are just beginning to see the first wave of innovation and capital dedicated to these problems.”

Stanford University, in the heart of Silicon Valley, is the latest institution to place a big bet on clean tech. The Palo Alto school, known for its entrepreneurial focus, is investing \$100 million to create a new institute for renewable energy research. The institute will provide seed grants for promising energy conversion

projects, and Stanford officials have cited solar cell research based on nanoscience, the storage of wind-generated energy, and biofuels as likely areas for research and grants.

“Clean tech has become a magnet for the best and brightest entrepreneurs and executives,” Ehrenpreis says. “Every day we are approached by successful entrepreneurs who were focused on information technology and life sciences who now want to make clean tech the next step in their careers.”

According to Ehrenpreis, major trends are converging to make clean tech the new star of the tech world. For starters, corporations have evolved from paying lip service to “going green” to realizing that clean technologies can contribute significantly to the bottom line. General Electric, Wal-Mart, and Coca-Cola all are making significant investments in clean tech.

Meanwhile, the political landscape

If You’re Still Scared Of Stocks, Think About This

Due to several recent dips in the stock market, many individuals remain cautious and have steered clear of stocks. That’s a mistake.

In the aftermath of every bear market, many individuals swear off stocks. They resolve to never again be burned by the stock market. This is a natural reaction but not necessarily the smartest one.

People who steer clear of stocks could indeed be right, since no one knows when, or even if, stocks will rise to previous highs again. But people who stay out of stocks could miss a lot of upside if they rebound in the coming years. Again, no one knows. And that’s the point.

Because no one knows what will happen, you do not want to make big bets either way. You want to be in a position to participate if the stock market gains, but not in a position to lose too much. This is where your personal financial plan comes into play.

Your plan gets into the details of how much you can risk in stocks. Your financial plan plots a long-term course of moderation. It examines where you are now and where you want to go, and then strategically approaches how you can get there.

If you are still scared of stocks, it’s time to peek out from under the rubble, see how the landscape has changed, and analyze your situation systematically with the help of a professional. We’re here to help you.

A Rising Tide Of Clean Technology Venture Capital In North America, Europe, Israel, China, and India

2001	\$506.78 million
2002	\$883.27 million
2003	\$1.26 billion
2004	\$1.40 billion
2005	\$2.08 billion
2006	\$4.52 billion
2007	\$6.09 billion
2008 (preliminary)	\$8.41 billion

Source: Cleantech Group (cleantech.com)

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When Market Noise Gets Loud, Trust An IPS

The stock market often acts like a roller coaster with highs and lows during the year. When things are looking up, making money looks easy, worries about risk seem remote, and having a written investment policy statement (IPS) may feel like a waste of time and paper. When the market is in the dumps, the natural reaction is to sell, even though we all know the importance of “buying low.” In both instances, an IPS will be your ally.

An investment policy statement commits to writing the details of your financial situation—what you want to accomplish, a plan for achieving it, and how much risk you’re willing to take to get there. It can save you from your own worst instincts, helping you resist the temptation to reach too far when times are good or panic when the market plunges.

Suppose, hypothetically, that the Nasdaq Composite just had a great run, skyrocketing 15% in the most recent quarter. With your portfolio ahead just 5% during the period, you might feel frustrated, and tempted to grab some of Nasdaq’s big gainers to try to catch up. A glance at your IPS, however, would remind you why that’s a bad idea. The diversification strategy you’ve committed to is designed to keep your portfolio on a

relatively even keel, with judicious allocations to bonds and dividend-paying blue chip stocks. It has the potential to produce steady gains over the long haul to fund your financial goals. And though it may not take off during a market surge, it’s also less likely to go into free fall when the investment climate gets stormy.

While there’s no hard-and-fast format for an investment policy statement, most combine the same basic components. First, there’s usually an executive summary that lays out where you are now in your investing life. It describes your current portfolio and may include your target asset allocation, how much new money you’ll invest each month or year, and what index benchmarks are used to gauge your progress. The executive summary also considers risk, often in terms of how much of a loss you could tolerate during specified time periods.

Next, your IPS may detail your

investment objectives—for example, that you and your spouse plan to retire in 15 years, and you’ll need income of \$200,000 a year, inflation adjusted, for three decades. Your investment philosophy sets out your investing rules to live by. How do you feel about risk, diversification,

frequency of trading, investment costs, and taxes?

Answering these questions in a formal IPS provides a philosophical underpinning for specific investment selection criteria

that translate your beliefs into action. Finally, the IPS may outline monitoring procedures for gauging your progress.

If you don’t already have an investment policy statement, please let us help you create one. Simply going through the process can be invaluable; answering our questions about your goals and risk tolerance may focus your thinking in a new, beneficial way. And with your IPS in hand, we’ll know how to serve your needs whatever the market climate. ●



College Savings Help Admission Chances

If you need a little extra motivation to set aside college savings each month, consider this: With a volatile stock market taking a bite out of college endowments, financial aid budgets are shrinking and assistance will be harder to come by. Worse, many colleges are choosing not to admit students who need aid.

Today, relatively few schools have the financial wherewithal to disregard a student’s ability to pay when making admissions decisions. According to Donald E. Heller, an associate professor and senior research associate at Pennsylvania State University, only about three

dozen colleges and universities now commit themselves to meet every admitted student’s need. “So it’s safe to conclude that all other institutions, to one extent or another, take financial need into account when deciding which students to admit,” says Heller.

Will your children be affected? It depends on the strength of their credentials, Heller says. Most top candidates will be accepted regardless of need, and may even be awarded merit scholarships. But other students may be judged in part on the basis of how much they will cost the school. “When admissions staffs get down to

those last pools of applicants, very often they will not admit students who need financial aid if they know the school can’t meet that need,” says Heller. “At that point, candidates who can pay their own way have an advantage.”

That’s not the way things generally worked during the 1970s and early 1980s, when most colleges at least aspired to need-blind admissions policies. By the mid-’80s, however, most admissions offices had adopted a more pragmatic business model often referred to as enrollment management. The bottom line for the admissions staff was simple: Fill the

What Happens After Economic Crises?

What if U.S. home prices dropped by more than a third, and didn't recover for six years? Or if stocks slid by 56% in a three-year bear market? Consider what would happen if the unemployment rate rose by seven percentage points, or per capita economic output fell more than 9%, and didn't recover for two years.

While parts of that scenario may seem extreme, in fact it's just average for almost a score of banking-led financial crises around the world since World War II. In a recent paper, Carmen Reinhart of the University of Maryland and Kenneth Rogoff of Harvard University put the current U.S. downturn in global and historical perspective. They considered 18 postwar financial crises around the world, including what they dub the big five: Spain in 1977, Norway in 1987, Finland and Sweden, both in 1991, and Japan in 1992. Add to that group the U.S. upheaval that began in 2007—which is “now beyond contention...severe by any metric,” they write. They also factored in famous emerging market crises, including Asia in 1997-1998, Colombia in 1998, and Argentina in 2001, and incorporated data from the Great Depression. In all of these cases, banking system meltdowns triggered major recessions. The Reinhart-Rogoff paper maps the fallout in several areas and charts how long it took before conditions improved.

By late 2008, when the paper was written, U.S. real housing prices had fallen by almost 28% from their peak—more than twice the decline during the Great Depression. And though many countries have suffered much worse setbacks, including drops of more than 50% in Finland, Columbia, the Philippines, and Hong Kong, the U.S. retreat has approached the 35.5% average noted by Reinhart and Rogoff, who found that the average recovery time for home prices is almost six years.

The U.S. stock market retreated further since Reinhart and Rogoff compiled their data, and prices dipped close to the 55.9% average loss noted in their paper. Here, too, some equity markets have fared much worse, with stock prices in Iceland collapsing by more than 90% during the current crisis and Thai equities sliding about 85% after 1997. Though the average recovery time has been 3.4 years, several markets have taken more than half a decade to bounce back.

Job losses always come with recessions, but when banking crises lead to downturns, the rise in unemployment rates tend to be particularly jarring. The worst was a more than 20 percentage point increase during the Great Depression, a catastrophic result that no postwar recession has approached. Still, the seven percentage point average spike

in unemployment that Reinhart and Rogoff observed amounts to an enormous drag on any economy, and the 9.5% U.S. rate in June 2009 was already more than five points above the low recorded in March 2007. On average, it has taken nearly five years for employment to rebound to pre-crisis levels.

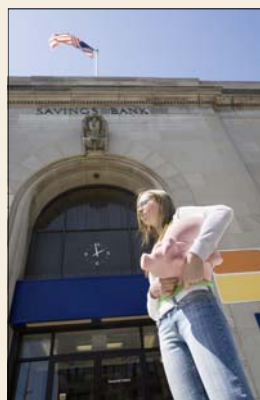
The bottom-line impact of a recession is the decline in a nation's economic output, and by that measure, banking-led crises have also been unusually severe, according to Reinhart and Rogoff. Emerging economies have suffered most, probably because they depend on external credit sources that may dry up when times get tough. Per capita gross domestic product (GDP) dropped by more than 20% in Argentina after 2001 and by almost 15% in Indonesia after the 1997 financial crisis. Much worse, of course, was the nearly 30% plunge during the U.S. Great Depression. But developed countries have also seen economic output drop sharply in more recent times, and on average, recovery takes almost two years.

And the cost to governments of trying to coax their economies back to life? The average rise in public debt during the three years following banking crises has been 86%, according to Reinhart and Rogoff. “Even recessions sparked by financial crises do eventually end, albeit almost invariably accompanied by massive increases in government debt,” they write.

It's not certain, of course, that the current crisis will follow the pattern of past upheavals, and the authors note that some central banks have been particularly aggressive this time in promoting economic recovery. Still, they write, “one would be wise not to push too far the conceit that we are smarter than our predecessors. A few years back many people would have said that improvements in financial engineering had done much to tame the business cycle and limit the risk of financial contagion.” They hardly needed to add that the limits of that hypothesis have become painfully clear. ●

class but don't exceed the financial aid budget.

Today, enrollment management is firmly entrenched at most schools. Moreover, with economics affecting alumni giving and pressure being put on endowment earnings, a student's financial situation plays an increasingly critical role in the admissions process. As a result, strategies for maximizing a student's apparent need by putting assets in parents' names and taking advantage of aid formulas that require students to spend a larger proportion



of their own savings could have undesirable consequences. And not saving for college at all, while counting on financial aid to bear the brunt of school costs, could prevent your children from getting into the colleges of their choice.

The safest approach to college funding is to plan to pay as much as possible yourself. Positioning your assets to qualify for financial aid or counting on the availability of loans could backfire with the admissions office and your kids. ●

The New Silicon Valley

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has shifted dramatically. “Lawmakers used to be very partisan in their environmental views, and now you have politicians fighting to see who can become the greenest,” says Ehrenpreis. Indeed, this year’s \$789 billion national stimulus legislation includes at least \$50 billion to support such clean tech initiatives as a smarter electricity grid, renewable energy, and other energy efficient projects.

Ron Pernick, co-founder and managing director of the Clean Edge consulting firm in San Francisco and co-author of the 2007 book, *The Clean Tech Revolution*, says clean tech already has grown to represent more than 10% of total venture capital activity in Silicon

Valley. “It’s on most everyone’s radar screen and is looked at as one of the core areas of venture capital today,” Pernick says. “The credit crunch is having a definite impact, but there is still a general sense of optimism because the drivers behind clean tech, from the cost of fossil fuels to the carbon issue, are not going away just because credit markets are tight.”

According to Pernick, Silicon Valley is a natural place to lead the clean tech revolution.

“Many clean technologies are built on applications in the silicon industry,” he says. “And people in Silicon Valley are looking for big challenges and the next

great opportunity.”

As an emerging growth industry, clean tech may increasingly find its way into individual investment portfolios. It’s important to remember, however, that

risks remain high, shares of public clean tech companies have been volatile, and interest and investment in an industry does not always translate into profits. We’re monitoring progress in this field and would be happy to

discuss whether clean tech might have a place in your investment plan. ●

Top Venture Capital Clean Technology Sectors in 2008

Sector	Investment	% of total
Solar	\$3.3 billion	40%
Biofuels	\$904 million	11%
Transportation	\$795 million	9.5%
Wind	\$502 million	6.0%
Smart Grid	\$345 million	4.1%
Agriculture	\$166 million	2.0%
Water	\$148 million	1.8%

Source: Cleantech Group (cleantech.com)

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