

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.

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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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Independent firms like ours don’t spend money on TV advertising. And that’s a shame because consumers deserve to know the difference between those giant Wall Street firms and our business.

The Wall Street giants, stung by scandals for giving advice that was tainted by self interest, have in the last couple of years launched ad campaigns selling their advice and saying they work on a fee-basis free of conflicts of interest. They are doing this because small firms like ours have had growing success in recent years by offering investment advice on a fee basis and acting as fiduciaries.

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Regards from your team at
LWWAG,

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Using Offshore Trusts For Asset Protection

Offshore trusts aren't only for spies, the super-rich, and movie stars. They're also for ordinary folks: doctors, lawyers, business owners, and real estate investors, among others, who are at risk of being sued and want to protect their assets.

In our litigious society, shielding assets from legal judgment is no more radical than insuring against fire, burglary, or auto accidents. It costs about \$30,000 to set up an offshore trust and \$3,000 a year to maintain.

Your need for an offshore trust has less to do with how much money you have than with your potential exposure to a liability lawsuit. A doctor with a family practice may feel less threatened than a plastic surgeon, for example, and a real estate investor who owns several apartment buildings may feel more of a need for asset protection than someone who owns farmland, even if the holdings are of equal value.

An offshore trust may come in handy during divorce proceedings, too, and it could benefit a director on the board of a publicly held company or a business owner who sells his company. In any of these situations, a properly structured trust could save you from

financial ruin.

All states except Alaska, Delaware, Missouri, Nevada, Rhode Island, Utah, and Colorado have laws saying a trust created for your own benefit is not shielded from a creditor's claims. You could establish a trust in one of those states and house your assets there. But if you're sued outside of those states and hit with a judgment, the courts where you were sued may not respect the trust laws governing your trust.

According to Gideon Rothschild, chairman of the American Bar Association's Asset Protection Committee, approximately 17 foreign jurisdictions now promote offshore trusts, some of which can be used for asset protection purposes. The Cook Islands in the South Pacific is most well known, but others include Belize, Gibraltar, and Nevis.

Some of these havens do not

recognize foreign judgments. So if a U.S. court finds you financially liable, these countries will not enforce the judgment. Some have short statutes of limitations. By the time a creditor locates your assets, it may be too late to sue you in one of these jurisdictions.

If you're uncomfortable about moving your assets to a faraway place, you could have the trust assets located offshore but managed by a U.S.-based manager. Or, the trust could



invest in U.S. securities, with a foreign bank as custodian. You could even use a U.S. custodian to hold title of the trust assets until you need to move them offshore. However, maintaining the assets in the U.S. may compromise the protection against an extremely persistent creditor.

And watch for offshore trust scams, especially those great tax schemes. Genuine offshore trusts are generally tax-neutral. ●

Financial Plans Are Meant To Be Revised

One great benefit of a financial plan is that it gives you a feeling of certainty. Designed to take into account wide-ranging scenarios, it seemingly should be able to shrug off an uptick in inflation, a bear-market stretch for stocks, or a spike in interest rates. Yet there are some circumstances—such as the recent once-in-several-decades plunge of the economy and financial markets—that even the most carefully constructed plan can't fully anticipate.

Such events, as well as possible changes in your own situation, mean that every financial plan, sooner or later, will have to be revised. Preparing

a financial plan is a process, not a one-time event, and making smart, timely alterations is crucial.

Consider how that process works. A financial advisor takes stock of an investor's overall financial situation and asks questions about goals, comfort level with investment risks, and the timetable for using investment proceeds. Then, the advisor establishes a comprehensive plan designed to help achieve those objectives.

That requires several assumptions about how markets and the economy will behave. For example, an advisor might base a plan on a projected inflation rate of 3%, an 8% average

annual return for stocks, and 4% yearly gains for bonds. Though some or all of those assumptions might miss the mark, the idea is that, taken together, they should be close enough to be useful. Yet even small inaccuracies, left uncorrected for 20 or 30 years, will leave a plan seriously out of whack.

Think of a ship setting out from New York for, say, Lisbon. The captain charts a course that should take the ship across the Atlantic to Portugal. But what if he makes a small miscalculation? Even if he's off only 1%, that could be a problem, and unexpected changes in winds and currents along the way are likely to

What A Difference A Year Makes In 10-Year Returns

Would you invest in an asset that has been in the red for an entire decade? That's the question a lot of investors have been asking themselves lately. The stock market rout that began in late 2008 and continued in early 2009 has resulted in a negative average annual return for stocks during the past 10 years, and that's bound to make many people hesitate to commit the lion's share of their portfolios to such a seemingly underwhelming investment. But the future for stocks looks much brighter than the recent—and not so recent—past.

Ten-year returns don't exactly lie, but their story is much more complicated than you'd expect, according to a recent report from Vanguard Investment Counseling and Research—"The 'Lost Decade': Rational Expectations in Uncertain Markets," by Francis M. Kinniry Jr. and Christopher B. Philips. Kinniry and Philips point out that during the past decade, the stock market has gone through several extraordinary periods—first, the runaway bull market of the late 1990s, then the brutal bear of 2000 through 2002, and finally the vertigo-inducing dive during late 2008 and early 2009. For years, the great markets of the late '90s buoyed long-term performance numbers. But now, as they fall out of 10-year calculations, the results begin to look pretty bleak.

For the decade ending June 1, 2009, the U.S. stock market as represented by the

Standard & Poor's 500 index returned a negative 3.32% a year—and that was after the market had rebounded almost 40% from its early March low. That's worse than bonds, which had an average annual gain of 5.88% during the same period. But just a few years earlier, long-term stock performance looked much better, according to the Vanguard report. At the end of 2002, coming out of the most punishing bear market in 70 years, the 10-year average annual return for stocks was a respectable 8.74%, and just two years later, as 2004 came to a close, that average had risen to 11.92%. Three years later still, however, the average annual return for the preceding 10 years had plunged by almost half, to 6.29%. The reason? Returns from 1995 through 1997, three years during which annual gains averaged nearly 30%, had dropped out of the equation.

Those returns from the 1990s, though exceptional, came during a decade that saw average returns of almost 20% a year, according to the Vanguard report. That's starkly different from the 2000s, which may well produce average annual returns of less than zero. Looking at those numbers, you might logically conclude that owning stocks isn't what it used to be, and that you ought to pare back your portfolio's equities, perhaps replacing them with bonds, which have outperformed all other asset classes so far this decade.

But that would be the wrong

conclusion, suggest Kinniry and Philips. There's nothing you can do about what has already occurred; what's important for investors is what's to come, and Vanguard, one of the world's biggest fund managers, is decidedly bullish on stocks. Though equities are indeed riskier than bonds, that's exactly why they tend to outperform fixed-income investments, and Vanguard's analysts believe the current market offers a generous risk premium—the amount by which stock returns should exceed the return on "risk-free" Treasuries. Vanguard expects that during the next 10 years, stocks could potentially produce average annual real returns—net of inflation—of more than 9%.

The risk premium is based on the idea that for investors to take on stocks' higher risks, they need the motivation of potentially higher returns. And the market's recent volatility only drives home the point that stocks do bring real risks, and that short-term returns often fall as well as rise. From 1982 through 1999, there was only one down year in the stock market. But that was an anomaly, a departure from the stock market's long history of producing a negative return one year in every four.

That fact, in turn, reminds investors of another truism—that to benefit from stocks' long-term returns, you have to be in the market long term. If you sell when stocks fall, you will have paid the price of investment risk but you won't be there for the gains that inevitably follow. To contain the risk of the market stumbling again before the next long-term bull market, a prudent strategy may be to "average" into the markets over the next six to 12 months, meaning that you should keep adding to your investments over time, rather than all at once.

Vanguard's optimism about stocks is based on several factors. Even after the recent rally, price-to-earnings ratios remain relatively low, and though the economy may not recover quickly, the stock market typically rebounds well in advance of a return to economic growth. But there's also the fact that stocks, statistically speaking, are due for a nice run after such a steep fall.* Investors miss it at their own peril. ●

***Past performance is not a guarantee of future return.**

make things worse. If he sticks to his original bearings, he could end up in Africa—or Ireland.

But that won't happen, because every good sailor understands the need for minor but constant course corrections. And a financial plan requires similar adjustments.

Look at the predictions of economists, market forecasters, or the government, and you'll see that no estimate extending more than a year or two into the future will be even close. So a financial plan written to predict the

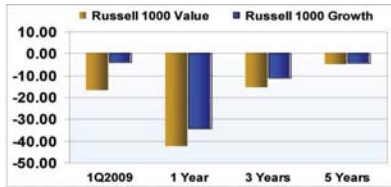
feasibility of a retirement 30 years away won't—and can't—be accurate.

But it can establish a starting point. Reaching your goals requires frequent adjustments to compensate for the winds and currents you meet along the way.

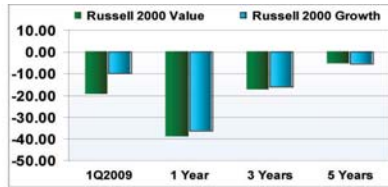
Once you understand that basic certainty, you can prepare by discussing how, and under what circumstances, your plan will need to be altered. We would be happy to review your plan with you to make sure it continues to move you toward your long-term goals. ●



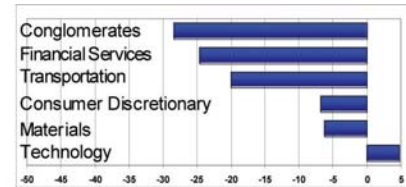
Market Data Bank: 1st Quarter 2009



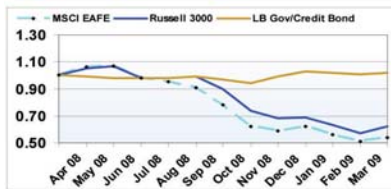
LARGE VALUE VS. LARGE GROWTH
The bear market kept its grip on the biggest banks in 1Q09, pushing large-cap value portfolios down another 16.77%. Large growth stocks resisted the worst of the selling, ending down a "mere" 4.94%.



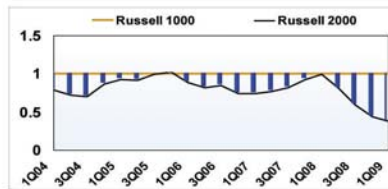
SMALL VALUE VS. SMALL GROWTH
Smaller and more economically sensitive companies faltered in the gloom. Small value shares plunged 19.64%, while small growth fell 9.74% as hope for a near-term economic recovery ebbed.



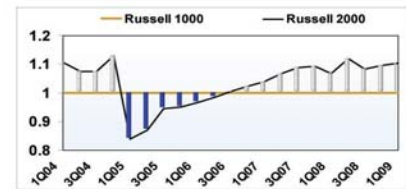
THREE BEST AND WORST SECTORS
Only technology, seen as a haven from the credit crisis and dimming consumer spending, ended the quarter in positive territory. Every other major sector suffered significant to severe losses.



FOREIGN, US STOCKS & US BONDS
With U.S. and foreign stocks shedding 38% and 46% of their respective value on a year-over-year basis, investors sought relative safety (and accepted scant gains) in the Treasury bond market.



LARGE VS. SMALL STOCK EARNINGS
US corporate profits expanded at their slowest rate since late 2002 in 1Q09. Starved for both revenue and credit, smaller companies found it especially difficult to add to their bottom-line results.



PRICE-TO-EARNINGS RATIO
Declining stock prices made both large and small companies cheaper on a fundamental basis. Investors remain willing to pay a premium for small-cap profits and the potential growth they represent.

Small-cap stocks represented by Russell 2000 index, large-cap stocks represented by Russell 1000 index. Foreign stocks represented by the Morgan Stanley Capital International's Europe, Australia, Far East Index, and US bonds by the Lehman Bros. Government/Corporate Bond Index. P/E ratios exclude negative earnings. Small-cap stocks tend to be more volatile than large-caps. Bonds offer a fixed rate of return while stocks will fluctuate. Indices are unmanaged and do not represent any specific investment. Foreign investing involves special risks, including political unrest, economic instability, and currency fluctuation. Past performance does *not* indicate future results.

Source: Russell/Mellon

The New Silicon Valley

(Continued from page 1)

Meanwhile, the political landscape 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. ●

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)