Capital League
PRIVATE WEALTH MANAGEMENT

Wealth Wisdom

January 2012

Season's Greetings!

Wealth Wisdom was initiated in 2011 as our attempt to help affluent individuals understand some of the common blunders that people make in managing their wealth. Our previous issues targeted to bust a few investment myths and discussed what wealthy individuals the world over are doing with their wealth – "The Giving Pledge".

The current market environment is one of gloom and during such extreme periods, we as investors often make decisions that can undermine our ability to build long term wealth. We at Capital league realise that during such phases, it can be very valuable to look back in history and study closely the timeless principles that have guided the investment decisions of some of history's wisest (read greatest) investors through both good and bad markets.

With this goal in mind, we are beginning a special series that offers perspectives on distinct topics from some of these great investors. The common theme is that a disciplined, patient, unemotional investment approach is required for successful investing. We hope this collection of wisdom serves as a valuable guide as you navigate an ever changing market environment and build long term wealth.

In this edition, we are featuring Benjamin Graham, recognized as the 'Father of value investing' and one of the most influential figures in the investment industry and Shelby Cullom Davis, a legendary investor who turned a $100,000- investment in stocks to over $ 800 million.

Happy reading!

Wealth Wisdom is an educational platform with multiple formats which currently include a periodic newsletter and short presentations that we make for corporations and associations. Wealth Wisdom is part of Capital League's CSR (corporate social responsibility).

Capital League is a boutique, wealth management firm and is counted amongst India's leading independent financial advisors. The firm is headed by seasoned private bankers.

Successful Indian families are finding it counter-productive to individually deal with multiple investment advisors, tax consultants, accountants, insurance agents, stock brokers and lawyers for managing their personal wealth. They are increasingly recognizing the value of a 'Family CFO' – an experienced guide, a financial coordinator and an advocate who would offer unbiased advice within the unique context of that family's circumstances and goals. Capital League has emerged as family CFO of choice to successful families.

Capital League allows its clients the opportunity to continue doing what they do best: building wealth, pursuing hopes, and living the life of their dreams.

At Capital League, we have a singular passion – to be client centric – and that guides everything we do. We believe that our combined 45 years of private banking experience gives us the necessary expertise to help our clients achieve their wealth protection and wealth creation objectives.

Avoid Self-Destructive Investor Behavior

> "Individuals who cannot master their emotions are ill-suited to profit from the investment process."
>
> Benjamin Graham. Father of Value Investing

Emotions can wreak havoc on an investor's ability to build long-term

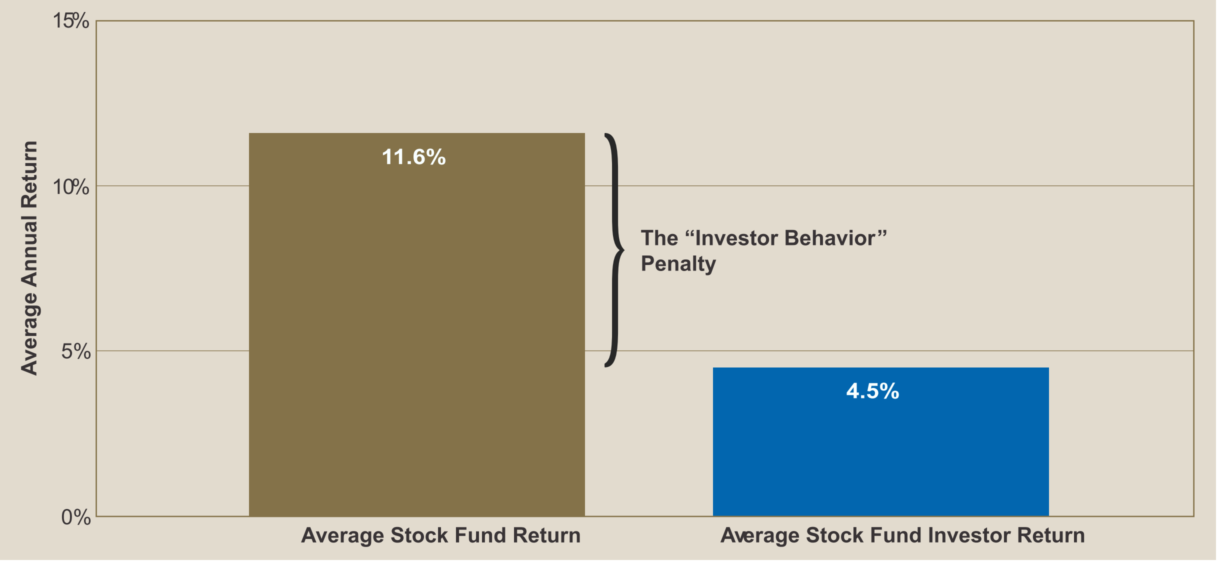
wealth. This phenomenon is illustrated in the study below. Over the period from 1988-2007, the average stock fund returned 11.6% annually, while the average stock fund investor earned only 4.5%.

Why did investors sacrifice nearly two-thirds of their potential return? Driven by emotions like fear and greed, they engaged in such negative behaviors as chasing the hot manager or asset class, avoiding areas of the market that were out of favor, attempting to time the market, or otherwise abandoning their investment plan.

Great investors throughout history have understood that building long-term wealth requires the ability to control one's emotions and avoid self-destructive investor behavior.

Average Stock Fund Return vs. Average Stock Fund Investor Return

(1988–2007)



Source: Quantitative Analysis of Investor Behavior by Dalbar, Inc. (July 2008) and Lipper. Dalbar computed the "average stock fund investor" returns by using industry cash flow reports from the Investment Company Institute. The "average stock fund return" figures represent the average return for all funds listed in Lipper's U.S. Diversified Equity fund classification model. Dalbar also measured the behavior of a "systematic investor" and "asset allocation investor". The annualized return for these investor types was 5.8%and 3.5% respectively over the time frame measured. All Dalbar returns were computed using the S&P 500® Index. Returns assume reinvestment of dividends and capital gain distributions. **Past performance is not a guarantee of future results.**

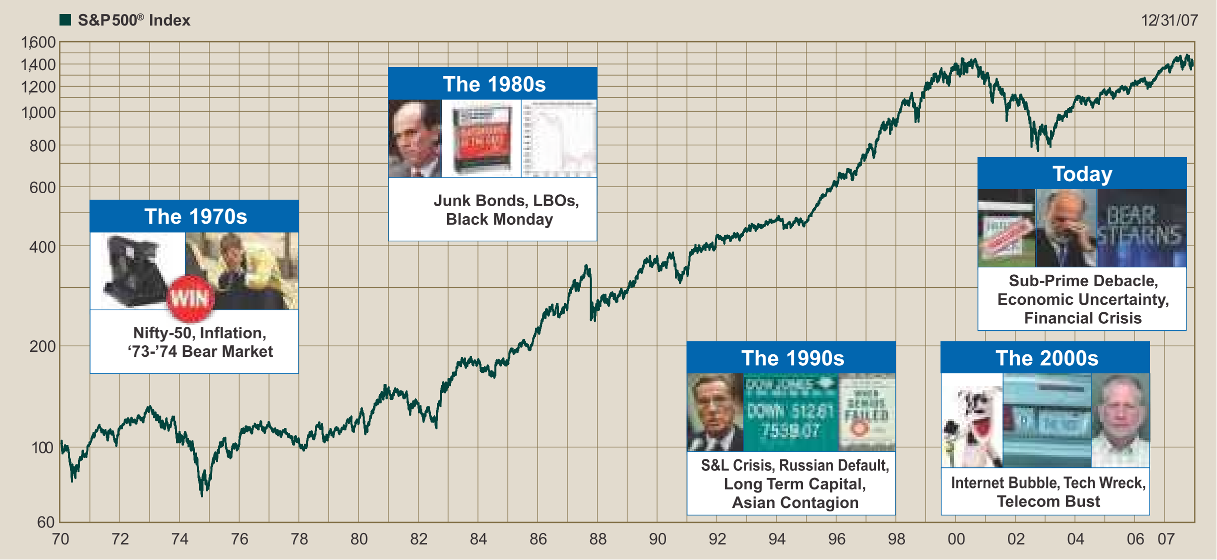
Understand That Crises Are Inevitable

> "History provides a crucial insight regarding market crises: They are inevitable, painful, and ultimately surmountable."
>
> Shelby M.C. Davis. Advisor and Founder, Davis Advisors

History has taught that investors in stocks will always encounter crises and uncertainty, yet the market has continued to grow over the long term. The chart below highlights the myriad crises that faced investors over the past four decades, along with the performance of the S&P 500® Index over the same time period. Investors in the 1970s were faced with stagflation, rising energy prices and a stock market that plummeted 44% in two years. Investors in the 1980s dealt with the collapse of the major Wall Street investment bank Drexel Burnham Lambert and Black Monday, when the market crashed over 22% in one day. In the 1990s, investors had to weather the S&L Crisis, the failure and ultimate bailout of hedge fund Long Term Capital Management and the Asian financial crises. Investors in the beginning of the 2000s experienced the bursting of the technology and telecom bubble, 9/11 and the advent of two wars. Today, investors are faced with the collapse of residential real estate prices, economic uncertainty and a turmoil in the financial services industry. Through all these crises, the long-term upward progress of the stock market has not been derailed.

Investors who bear in mind that the market has grown despite crises and uncertainty may be less likely to overreact when faced with these events, more likely to avoid making drastic changes to their investment plans and better positioned to benefit from the long-term growth potential of equities.

Despite Decades of Uncertainty, the Historical Trend of the Stock Market Has Been Positive



Source: Yahoo Finance. Graph represents the S&P 500® Index from January 1, 1970 through December 31, 2007.
Past performance is not a guarantee of future results.

Capital League Entertainment Soiree 2011 – An evening with an illusionist

Edmundo Da'Cunha, the famous illusionist from Goa performing his tricks.

Capital League team with Edmundo Da'Cunha

We are beginning to make a mark…..

Capital League Wealth Creation Conclave 2011 "INDIA: SUPER POWER ?"

Left to right: Panelists - Madhusudan Kela, Reliance Capital Group, Ravi Bhoothalingam, Former President, Oberoi Group, Amal Ganguli, Former Chairman, PWC, Prashant Jain, HDFC MF, Raghav Bahl, CNBC TV18.


The esteemed gathering listening in rapt attention to the preview to the book by Raghav Bahl


The Capital League team with Madhusudan Kela and Prashant Jain

Capital League Wealth Creation Conclave 2010 "PARTICIPATING IN THE INDIA GROWTH STORY"

Left to right (A Balasubramaniam, Birla Sunlife, Anup Maheshwari, DSP Blackrock, Vinita Idnani, Rajul Kothari, Nilesh Shah, ICICI Prudential, Navneet Munot, SBI Mutual Fund.


Sapna Narang, Managing Partner, Capital League


The Capital League Team