

Nothing yields greater insight into our work than gardening lessons, and there's no better gardening lesson to be had than a visit to [Montrose](#), the historic garden in Hillsborough, North Carolina. And though *Montrose* still has many of the original gardens planted by North Carolina Governor Graham 70 years ago, what's noteworthy is that this garden's progress has come at the hands of [Nancy Goodwin](#), who is surely to gardening what Warren Buffett is to investing.



Nancy, who's lived on the property for 25 years, started out by telling our group, "We have 63 acres here, but we're only *trying* to control 20." *Montrose* has no irrigation, in fact, as close as they are to the Eno River, there's no watering whatsoever except on planting day, and then only at the site of the actual planting. Not even during the hot, dry summer of 1998 did they consider watering. Abundant leaf mulch achieves this natural watering system. Another fact: at *Montrose*, something blooms every day of the year. I, who have spent a small fortune on sprinklers and timers and hoses and more quick-connect fittings than you could shake a peony stake at, was really starting to get curious; I'd never heard anything like this.

I asked when a particular [Helleborus orientalis](#), or Lenten Rose, would bloom. Nancy paused, as if trying to remember how old she was when she read her first *Farmers' Almanac*, "I can't predict *when* it will bloom, only that it *will* bloom, at least, in a typical year." Meaning that in gardening (as in our line of work) there are *atypical* years. Someone else on the tour asked whether a *Primula vulgaris*, or native primrose, would grow in the type of soil found at *Montrose*. With respect and humility, Nancy replied that it would, and added, "After 20 years, I'm beginning to know the soil." *Beginning* to know the soil, just *beginning*, I mean, how long does it take to get to know soil?

Possessed by a thirst for learning and armed with an undaunted fear of killing things off, Nancy learned how to propagate new [Primrose](#) and Hellebore hybrids. "I like to kill something three times before giving up; I'm not trying to produce *everything*, just what I love, just what will come through the heat and the cold." This rare discipline has led to her discoveries of plant varieties other gardeners only dream of. I scribbled notes lest these insights escape me. Undecided as to whether I should ask the next question, I asked anyway: "In gardening, what is required to be not just *above* average, but *excellent*?" Nancy thought quietly for a long time, while I beat myself up for asking such a personal question. She looked me squarely in the eye and answered, "An unending curiosity about how things work, a knowledge of what the plants are capable of doing, a knowledge of what I am capable of doing, and above all, an undying love for my work."

Professional investors should know that they cannot *control* the results they're after, much less guarantee *any* result. The world, like *Montrose*, is filled with outside influences, multiple

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variables, and random events. E. B. White, who wrote *Charlotte's Web* said, "The reason life gets so complicated is on account of one thing always being connected to another." Try as we might, we cannot control anything external to us. Yet we humans spend a lot of time and energy worrying about things – like the future – that are simply beyond our control. Like our gardening friend, we love our work because it affords us unlimited opportunities to *influence* the results we're trying to achieve, and thereby influence the future. All our work asks for in return is our word that we won't think and act as if we can *control* those results.

The Markets

This first quarter of 2007 in stocks has been one of the most volatile three months in six years. The [S&P500 Index](#) experienced its single *best week* in over two years and the single *worst week* in over four years (both events within a 21 day span). The volatility began with real estate. Real estate? How does the value of real estate affect the stock market? Over the last few years with the prices of real estate seemingly heading in only one direction (up), subprime mortgage originators resorted to bad underwriting tactics and exotic products to create illusions of affordability. Variable rate mortgages, interest only 30 year mortgages, one, three and five year adjustable rate mortgages made it seem painless for people to borrow money when they could not really afford to. These borrowers made the mistake of believing interest rates would stay low forever. Unfortunately for them, rates increased from 4.0% to 8.25% in a little over three years.

The resulting increase in delinquencies forced many subprime lenders to "take back" loans they had already sold, and at the same time, creditors shut down their money pipelines to subprime lenders, leaving them in a liquidity crossfire, and vulnerable to liquidation. Indeed, several subprime lenders have either filed for bankruptcy or shut down operations; more bankruptcies could be forthcoming. Many of these lending firms were owned by conglomerate banks, like Citicorp and Bank of America, always interested in "diversifying" their portfolios. Naturally, traders feared the subprime market meltdown could hurt these larger institutions and spread, like falling dominoes, across the economy.

Then, on February 27th, China's Shanghai Composite Index fell 8.84%, its biggest percent decline in a decade. Its sister index, the Shenzhen Composite Index, shed 8.54%. In China, a drop of this magnitude is not significant in and of itself. On several occasions during the past year, the Shanghai Stock Exchange has experienced ripples on the order of 5.0% or more and their stock market (and their economy) has already seen a "boom and bust" cycle this decade as well. Why the scare in the world markets? We think this is a question that deserves more than the usual "well the world is getting smaller" answer.

For maybe the very first time, China set the trend in the global stock community. Normally, the U.S. exchanges – principally the S&P500 and the Dow Jones indices – set the tone for global trading patterns. But not on February 27th. China led the Asian markets down, Europe followed with fears of its own. In the United States, markets were already nervous over subprime lending

issues. By the end of that day, the Dow experienced its biggest decline since the decline following the 9/11 attacks. Volatility returned with a vengeance!

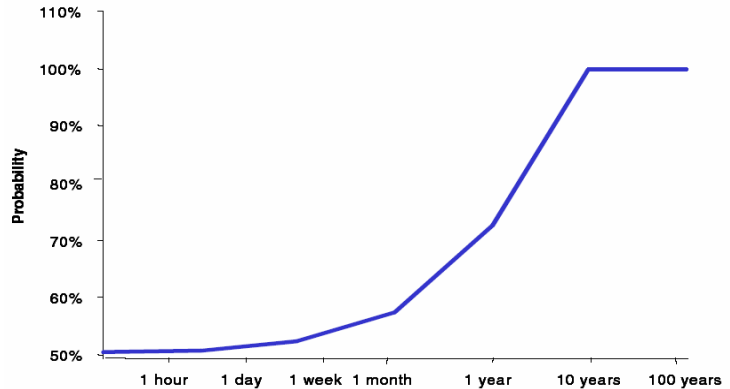
Our Response

What was our response to the volatility of the markets? Patience and opportunism.

We look at price swings as times to evaluate where to invest our clients' assets more effectively. Conversely, we don't see these swings as opportunity to worry.

[History](#) tells us not to worry.

Did you know that if your investing time horizon is a year or longer that the odds of having a positive result are better than 75%? And if you increase your horizon to 10 years, that those odds approach 99%?¹ How about this? Losing money over any 10 year period is virtually assured, *if* you hold nothing but cash investments, because every time you turn the calendar to a new month, you have to feed that ["old dog" inflation](#) a little more lost purchasing power.



So which strategy is conservative and which one risky – cash or stocks? A stock market historian possessing a simple working knowledge of normal distributions would tell you that stocks are more risky, *if your holding period is less than five years*. Conversely, if you hold too much cash for longer than you need it, he'd tell you that cash investments will surely be more risky, because that "old dog" inflation will keep nibbling away at your purchasing power.

The stock market is not the place to try and make a quick buck, nor is it reserved only for the rich and famous; it is, in fact, a place where a patient investor (and we mean "*waiting 20 years to get to know the soil*" patient) can invest for decades – for her own blessing *and* the blessing of her heirs. Our advice: find a professional with an unending curiosity about how things work, a knowledge of what that profession is capable of doing, a knowledge of what he is capable of doing, and above all, with an undying love for his work. While this might sound like a pretty strong pitch for Jonathan Smith & Co., it is a tried and true principle for finding the right tool for *any* worthwhile endeavor.

At Jonathan Smith & Co., we're not trying to produce *everything*, just what we love, just what will come through the heat and the cold.

¹ Mauboussin, Michael; 11/18/2003, [The Consilient Observer](#), Volume 2, Issue 21; Page 5;