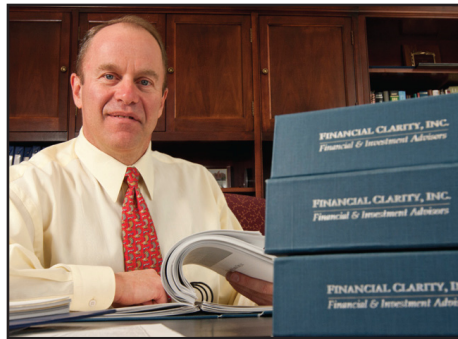


# Stock market's volatility likely to continue next year

BY ELI SEGALL

As a wealth manager, Stanford "Stan" T. Young has more than 30 years of investment experience. He is the founder and president of Mountain View-based Financial Clarity Inc., with roughly \$1 billion of assets under management. In the interview below, Young talks about his economic and investment outlook, which has been edited for length and clarity.



VICKI THOMPSON

## STANFORD "STAN" T. YOUNG

**Title:** Founder and president, Financial Clarity Inc.  
**Education:** University of Virginia, B.S. in commerce; University of Pennsylvania, The Wharton School, MBA  
**Career path:** 1984-88, worked for Asset Management Group in Los Angeles; 1988-92, worked for boutique investment bank PR Taylor in Palo Alto; 1992, founded Financial Clarity

## FINANCIAL CLARITY INC.

**Location:** Mountain View  
**President:** Stanford T. "Stan" Young  
**Assets under management:** About \$1B  
**Founded:** 1992  
**Number of employees:** 9  
**Website:** [www.financialclarity.com](http://www.financialclarity.com)  
**Phone:** 650.559.9900

### Q: Who are your clients?

**A:** Company founders, venture capitalists. We only service 29 accounts and take on maybe one client a year. We are not really looking for new clients. We have a minimum of \$30 million of assets that we manage for each client. When we take someone on, we take on everything. It's either 100 percent of their assets or nothing.

### Q: What are the current "hot topics" in wealth management?

**A:** In the area of investments, it's how to deal with the low yields offered by fixed-income securities and the increasing volatility in the equity markets. In estate planning, it depends on where you are in your life. If you are in a startup, should you gift pre-IPO stock to your children? If you are very wealthy, should you try to take advantage of the large lifetime exclusion that expires at the end of 2012? When it comes to tax planning, the question is what should you do if your income triggers the Alternative Minimum Tax? Then there is the benefit question. Should you participate in a 401(k)? When is the right time to invest in or exercise pre-IPO stock?

### Q: What's wrong with the average investor's portfolio?

**A:** Most people these days are paralyzed by all the uncertainty. This has caused people to over-invest in cash and fixed income. While this helps protect against the downside, in the long term, it is essentially a guaranteed losing strategy against inflation. Investors need to figure out a path to take risks they can live with given the volatility in the liquid securities markets.

### Q: So what advice do you have to help navigate through the uncertainty?

**A:** We think there are a number of opportunities. There's a lot of innovation in financial products that will come into play. There are a

lot of other liquid securities, an ability to get to hedge fund assets in small chunks and fund of funds. With non-liquid assets, there are a lot of really interesting real estate deals out there right now, like apartments. There are also opportunities in energy. It might be in clean energy or regular energy deals where the buying is in oil and gas assets. A typical thing we do is, we work with an operator, give them some money, and they buy a field from a major company. You bring in a new team, fix it up, and get the cash flows up.

### Q: When tech employees have new found wealth through an IPO, who then manages the money?

**A:** Normally what happens is, one or two banks lead the initial public stock offering, and they'll get their wealth management teams in there. Most of the time, the employees start out with those guys. They'll be good at helping the employees sell the restricted stock. There are a lot of hoops you have to jump through, with paperwork and getting it cleared with the general counsel. The banks are good at getting this done. Usually the wealth management firms come in after the fact.

### Q: Do you expect a lot of stock market volatility to continue in 2012?

**A:** Absolutely. We're expecting continued bounciness that's going to be scary. A lot of it is less about the economics than about the political process that seems to be broken.

### Q: What are some of the difficulties currently facing investment professionals in the wealth management sector?

**A:** In our view, the investment strategies that served advisors well for the last 20 or even 50

years are unlikely to be nearly as successful as they have been. This is due to dramatic changes in the fortunes of the developed world and the inability of politicians to address the problems we face.

### Q: How could the U.S. presidential race next year affect your clients' portfolios?

**A:** It could have a monstrous affect. If you look at where Congress is, they're not in any sort of position to broker the kind of big deal we need to stabilize the U.S. economy. You need to have that in place, showing the rest of the world we've cut the budget, raised taxes, whatever you need to do to get your house in order. Because of the election, it's virtually impossible for Congress to grapple with these issues and come to an agreement, because they're all so worried about getting elected.

### Q: Some financial advisers say Congressional gridlock is good for the stock market because lawmakers can't pass any new regulations that would crimp corporate earnings. What's your opinion?

**A:** That outlook works better when there's more financial stability in the U.S., and it assumes the economy would be fine and as long as Congress didn't change things. But now, the economy's not fine, and you need to do something to fix the economy and the budget. Having Congress in gridlock doesn't work anymore.