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QUARTERLY INVESTMENT OUTLOOK
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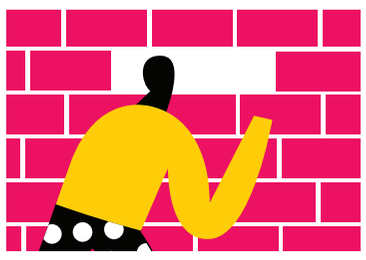
Seeking a lifeline? As optimism deflates, investors put money into more tangible assets. Like gold coins. And talking bears.

BY CEZARY PODKUL, *Special to The Washington Post*

How is your portfolio doing since the 2008 financial crisis? If you're like most Americans, it's probably healed some. After all, stocks are up about 13 percent since October 2008. Bonds are up about 30 percent. ¶ "Winnie-the-Pooh" is doing a bit better. A 1926 first-edition copy of the fabled children's classic can fetch nearly four times what it did in 2008 — a return of almost 300 percent. ¶ "I'm holding the very first introduction of this character to every generation," said Patrizio Di Nicola, who snapped up a pristine copy of the book for $1,825 in October 2008. Today, similar copies retail for $7,000. "I don't ever have to worry if they're ever going to be worth anything." ¶ Beset by low yields, choppy markets and a flood of uncertainty from Europe's debt crisis, investors are increasingly looking to nontraditional assets to bolster their portfolios. The goal is to detach themselves from the ups and downs of stocks and bonds while building wealth in tangible items they enjoy. ¶ Some buy rare books, photos or paintings. Others allocate a portion of their savings to fine wines. Precious metals, in the form of gold coins as well as jewelry, are also popular. ¶ "Collecting assets like art and jewelry is not only an emotional investment or a passion investment," said INVEST CONTINUED ON AA9



A China breakthrough?
Mutual fund managers seek a way into a tough-to-navigate but potentially lucrative market. AA2

The top 10 slip-ups
Barry Ritholtz on investors' most common missteps — and how to keep on your feet. AA3

No summer break in Europe
Concern about Spanish banks, Italy's stability and Greece leaving the 17-nation euro zone drove the S&P 500 down at the end of the quarter. The Dow slumped 2.5 percent overall.
2012 SECOND-QUARTER FUNDS, AA5-8

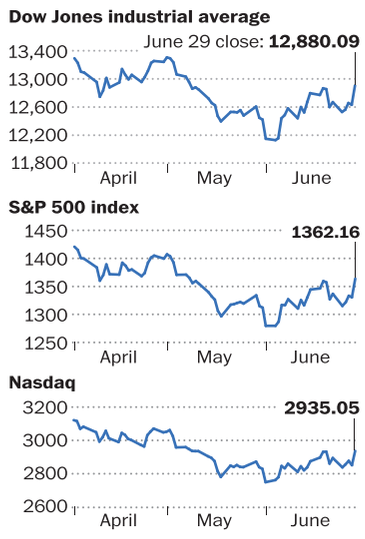
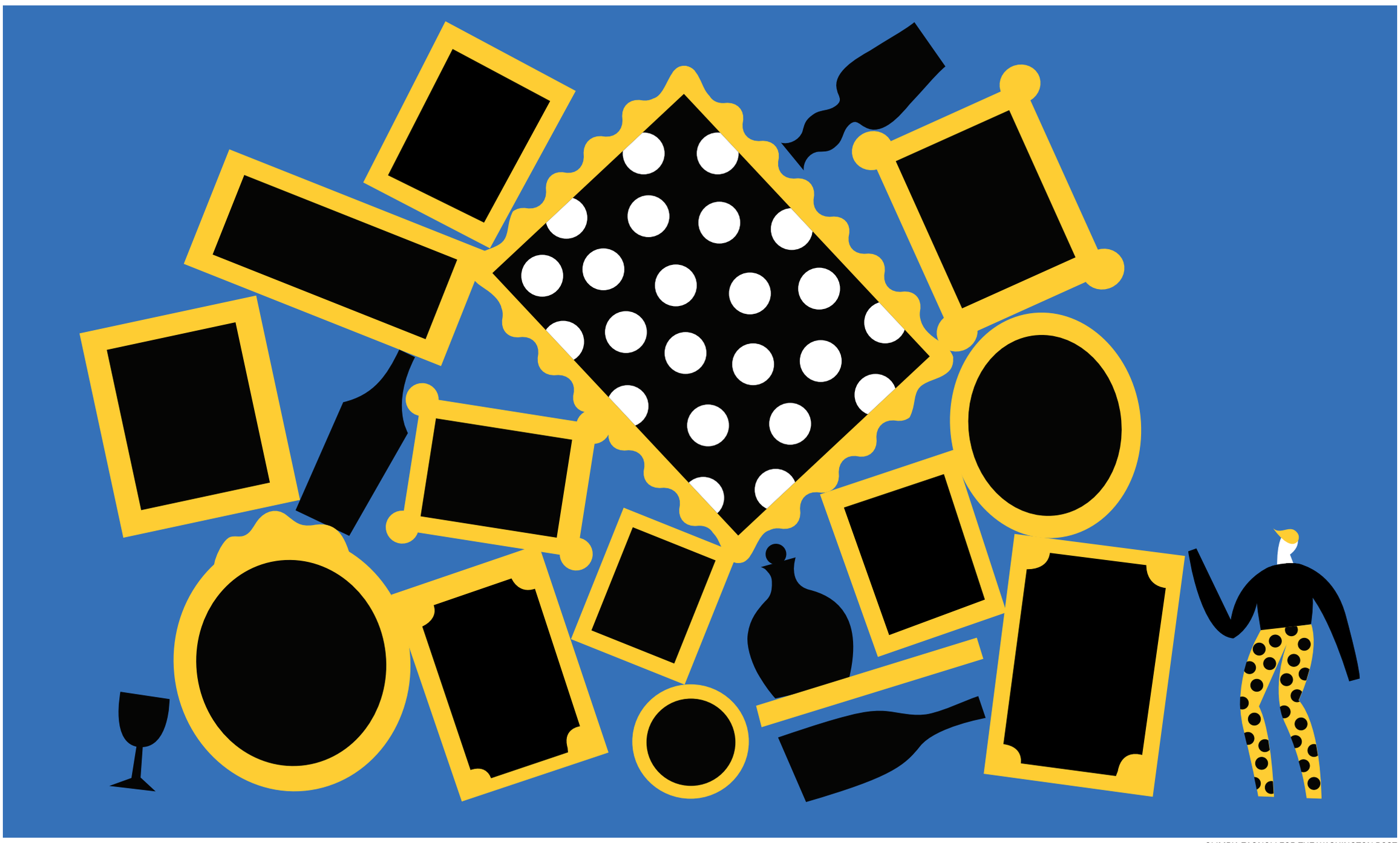


ILLUSTRATION BY LUKE LUCAS FOR THE WASHINGTON POST

Q2 "The overarching issue that's led to dollar strength today is pervasive fear that there aren't enough policy bullets to address the global slowdown." — Dan Dorrow of Faros Trading. The dollar strengthened to a two-year high against the euro as investors sought safety after the disappointing June jobs report



OLIMPIA ZAGNOLI FOR THE WASHINGTON POST

Once a pastime, now an investment strategy

INVEST FROM AA1

Gerald Escobar, head of business development for Trov, a Silicon Valley firm that helps people track and value their tangible assets. "They are also being bought now for their investment worth."

Winnie-the-Pooh

Better information is fueling the market. There is now an "enormous amount of data available" on how much, say, a painting by German artist Gerhard Richter could be worth, Escobar said. Auction houses provide one point of reference. There are also indexes that track the value of fine art, wines and other assets.

Escobar has helped catalogue household collections of paintings, sculptures, comic books, classic cars, butterflies and even Egyptian artifacts. Trov is building a software program to aggregate such data and help people track the value of these assets over time – just like a stock.

But for many, it's the fact that their collectible is not a stock that makes it more attractive.

Di Nicola, a computer technician in New York, turned his love of collecting children's books, posters, used postcards and original photos into a full-fledged investment strategy in part because he didn't trust corporate America.

"When I heard about Enron, that was it," he said. "And then WorldCom started," he added, referring to another corporate scandal. By 2002, he had made the decision to never again invest in stocks, which he'd sold out of in 1999 when he bought his house.

In 2007, he found a different investment strategy: children's books. The 42-year-old father of two got the spark after watching the animated movie of "Charlotte's Web" with his eldest daughter in spring 2007.

"I didn't see anything else that I wanted to put money into," he said. He does not keep an individual retirement account and is shifting the remaining half of his workplace retirement account into collectibles he thinks society will appreciate more with time.

His favorites include a 1952 first edition of "Charlotte's Web" he bought for $400 and several 1931 French first editions of "Babar" he bought for $50 to $600 each. He does not keep a precise count of his collection but estimates he has bought about 200 books — mostly through Web sites such as eBay. The total he has spent on his books is less than, say, the $32,500 price tag of a new Audi A4. "And people leave their car in the street," he quipped.

Children's books are not immune from the economic malaise gripping the stock market. If another deep recession were to grip global markets, fewer people might be willing to pay top dollar for Di Nicola's "Winnie-the-Pooh" collection (he's bought all four first-edition books in the series).

But so far, the strategy is working. At New York's Bauman Rare Books, on Madison Avenue, a first edition of "Winnie-the-Pooh" sits on display with a $7,000 price sticker. A 1931 "Babar" goes for $3,500. A 1952 "Charlotte's Web" can be had for $4,000. That means, were he to sell, Di Nicola could already more than recoup the original investment on many of his books. But for now, he said, he is not tempted to sell.

"When you own things like that, the last thing you want to do is to be in a rush to sell them," he said.

The plan is to build the collection to give to his daughters someday, though he may sell some strategically to help with retirement or other life events.

Justin McShea, a bookseller at Bauman, is seeing more buyers like Di Nicola.

"A lot of people look at it as a safe place to park some money," McShea said. "Plus, you get to have these amazing books in your home."

By the numbers

1 percent
Share of the worldwide wine market classified as "investment grade" wine

$7,000
Price of a first-edition 1926 "Winnie-the-Pooh" at Bauman Rare Books in New York

$1,692.19
Price of one brand-new 2012 one-ounce Gold American Eagle coin as of Thursday.

Sources: Trellis Fine Wine Investments, World Gold Council, Bauman Rare Books, APMEX

The Greedometer

Thanks to Europe's ongoing debt woes and the economic and fiscal uncertainty in the United States, investors big and small are increasingly looking for safe places to preserve their savings and nest eggs. But traditional financial investments do not provide many attractive options right now.

The Washington Post asked members of the National Association of Personal Financial Advisors what investors can do to prepare their portfolios for the uncertainty. "Stay in cash" was the first of about 20 responses, received from Jeff Seymour of Triangle Wealth Management in North Carolina.

True to his word, Seymour, who manages about $20 million for 30 families, is keeping about half the money in cash right now.

"This is my job now, to be a massive, massive chicken," he said. He bases his fear on a tool he's developed called the Greedometer, which takes inputs such as the general level of stock market volatility and corporate profitability and uses them to predict the likelihood of a market crash. Almost all of this year, it's been north of 6,000 on an 8,000 scale.

"Every time this gauge gets this way, things melt down," said Seymour, an engineer by training.

Gold and cows

Doug Casey, a longtime speculator, would trade Seymour's 50 percent cash allocation for something else: gold and cows.

Casey buys a few one-ounce gold coins each month — a habit he started years ago and continues today, despite the bull market in gold prices. Since 2006, he has also been investing in cattle ranching in Argentina, where he owns about 150 dairy cows and 2,000 beef cows.

"I wish I could come up with other things," he said, but "I don't know what else you should do right now."

His main worry is the United States' $15.8 trillion national debt, which he says makes gold a sensible investment even at its price of late, about $1,600 an ounce. He worries the debt will spur inflation, which would devalue the dollar, while gold would retain its value.

"Having 50 percent of investable assets in gold now is completely reasonable," said Casey, who runs his own investment research firm, Casey Research, in Stowe, Vt. "I just buy some every month, and most people don't have any gold coins, so I just suggest that they buy some and start getting into the habit."

David Darst, chief investment strategist at Morgan Stanley Smith Barney, mixes in quotes from philosophers alongside numbers and trends when discussing the markets. He is targeting a slightly lesser allocation to gold: 3 to 4 percent.

"Gold is like financial Tylenol," he said. "Some people need more pills per day. Another person can get by on a half a pill per day that will calm them down and relieve their aches and pains."

For now, at least, Americans are reaching for the financial medicine cabinet. At the American Precious Metals Exchange in Oklahoma City, 98 percent of transactions are sales of gold to the public, said chief executive Michael Haynes. Investors can buy U.S., Canadian, Chinese, South African and other gold coins and bars through the exchange's Web site. There are even IRA providers who will take physical delivery of gold bought through the site.

"At the moment, this is a very, very, very heavy buy-it-and-hold-it strategy from our customers," he said. "Investors are realizing that there is something else than just the typical stocks, bonds and cash, and they are realizing that gold has a place" in their portfolios, he said.

Fine wine

Mark Ricardo has another idea for your portfolio: a bottle of red.

In November, the Alexandria-based investment adviser launched Trellis Fine Wine Investments. The idea was born from necessity. While crafting traditional investment portfolios of stocks and bonds for his clients, he realized that, more often than not, the assets moved together.

"You need to look for investments that don't move consistently with the volatility of the S&P 500," Ricardo said. It helped that he had been buying and collecting wine for 17 years. "I searched around and came back to wine."

It is not the supermarket variety. The "investment-grade wines" Ricardo places in portfolios make up less than 1 percent of the total wine market, or about $5 billion, according to his estimates. About 80 percent of that comes from France's Bordeaux region, where only a set amount of, say, a Lafite Rothschild is produced in any given year, according to tight quality prescriptions and legal limitations.

"You can't make Lafite Rothschild in Virginia — it doesn't work," said Bruce Rosen, a District attorney who has been investing savings in Lafites and other fine wines with Ricardo's help for about 10 years. "Between every restaurant that's going to want a case . . . and everyone else who wants one, you know the price will go up."

As of June, a 12-bottle case of vintage 2000 Lafite Rothschild went for $24,165, according to Trellis's data. In June 2002, it went for $2,500. That's a price appreciation of nearly 867 percent, not adjusted for inflation. The returns on the Lafite are extraordinary, but other investment-grade wines generally tend to also perform well. Measured another way, the Liv-ex Fine Wine 100, a London index that tracks the price of fine wines, has gained 161 percent, while the Standard & Poor's 500-stock index is up about 38 percent over the same period.

Wine, also, is not detached from the markets. Over the past year, the Liv-ex has plummeted alongside the S&P. A serious economic slowdown could also hit wine prices because fewer buyers in China and other hot wine markets might be able to afford to pay more, Ricardo said.

But over longer time horizons, Ricardo expects fine wines to show double-digit price appreciation, as well as a protection against inflation and currency risk, because most fine wines are bought outside the United States.

Ricardo picks wines for clients using a quantitative model and charges a 2.5 percent annual fee for helping them actively manage their portfolio, usually stored in a specialty cellar in London. That means identifying and executing buying and selling opportunities for their portfolios. He estimates retail investors would need at least $50,000 and at least a five-year holding period to properly invest in the space.

Mary Malgoire, president of the Family Firm, a Bethesda financial advisory firm, looks skeptically on investors branching out into gold, wine or other nontraditional investments.

"You want to be invested and stay invested, and you don't want to do anything too fancy," she said.

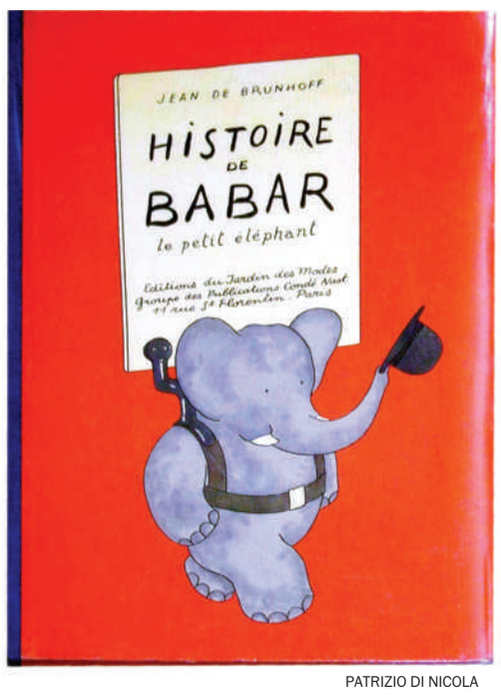
More often than not, she said, when investors sell out to pursue new ideas, they end up getting burned because of their lack of knowledge about what they are doing. "If you're over 40 and start putting money into things you don't understand, if you lose that . . . you're really facing working for a lot longer in your life," Malgoire said.

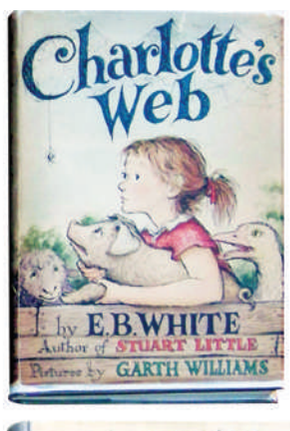
She advises people not only to make sure they really understand any nontraditional investment before they buy into it but also to give it a "more than 50 percent probability that you are going to lose 50 percent of it."

Rosen, the attorney in the District, does not worry too much about any of his more than 300 bottles underperforming: He knows he can always drink them.

"It's truly a liquid investment," he said.

Podkul is a journalist in New York.





PATRIZIO DI NICOLA

A few of the rare children's books in Patrizio Di Nicola's collection. A growing distrust of corporate America led the 42-year-old father of two to put his money in a more tangible investment.