



*A summary of my annual strategy piece,  
the Spring 2012 edition of Sentinel Horizons.*

## Nowhere to Hide in a World Without Safe Havens

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**T**HERE ARE THREE IMPORTANT MACRO AREAS TO THINK ABOUT this spring: the outlook for Europe; the unfunded entitlement problem (pensions, Social Security and Medicare); and the lack of good safe-haven investments.

Since bonds are so unattractive, it is tempting to just own more equities, but I think that would be a bad idea. One reason is that I am pessimistic on many macro-economic factors, since I think that global growth will disappoint, European sovereign stress will reoccur and the 2012 elections are unlikely to lead to entitlement reform. Another reason we should not be overweight equities is because of the shortage of “safe” investments that will rally if equities prices really fall; so, bringing risk balance to a portfolio is especially difficult.

I believe investors are overly optimistic on global growth prospects. China finds itself in a tough spot, as the residential real estate bubble has started to unwind just as its export growth is slowing. Caution is also warranted in Europe given the linkage between growth and tax revenue, as any growth shortfall could lead to a vicious cycle by triggering additional austerity moves. In the U.S., I don’t think economic growth

Story continued inside ...



# Minimizing Foreign Travel Nightmares

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Here are some suggestions to make this summer's foreign travel safer, more pleasurable and less stressful. We've learned many of these the hard way. As a result, the common theme basically is to think ahead about mission-critical things that could go wrong.

## Things Get Lost, Don't Work or Break

What if your credit/debit cards get lost or stolen? One Sentinel officer inadvertently left his debit card in an ATM machine upon arriving in London. Do you even know which credit cards are in your (and family members') wallets or purses? Before you depart, make multiple copies of both sides of each card. Ensure that each copy has a legible phone number to call in the event of loss or theft. Note that 1-800 numbers generally do not work if called from outside the US. Put a copy in each of your checked suitcases and in your carryon bag. Ditto for family members' passports and visas (make color copies of the data pages). Call each card company and let them know your travel plans so that their computers don't reject your charges.

That same hapless officer found out that Singapore (and, as it turns out, many other countries) will not allow you to enter the country if your passport will expire within six months. Check each family member's passport months before your trip. On a different trip, that same officer was sipping a cocktail and reading the Michelin guide on the plane to Spain and discovered that one needs an international driver's license (easily available, but only back home) for the planned 2-week driving trip. Fortunately, the rental car company did not demand it and careful driving avoided any run in with the cops.

Can you last for several days if the airline loses your baggage? To deal with that scenario, you should take all prescription medications needed for the entire trip in your carryon luggage. A change of clothes will be nice. If you are traveling with other family members, put some clothes for each in each suitcase, since only one case may be misplaced.

Take an extra set(s) of contact lenses, eye glasses – anything that, if you lost or broke it, would make you miserable.

## People Get Lost or Break

A young adult child sent anniversary flowers from the States to, you guessed it, the same unlucky officer, who was traveling in a somewhat remote part of Italy. Due to some mix-up, the flowers were delivered to the wrong location, which reported back that the intended recipient never arrived. The officer was staying in a rental property that had no phone, cell or internet service. The result was a cascading series of events/assumptions that led the child to believe that his parents had been abducted, killed or vanished, causing just a bit of stress to the family back home. Moral: leave a detailed itinerary, with hotel and contact numbers, and set reasonable expectations for possible communication snafus.

Story continued inside ...

For iPhone lovers, check out some of our favorite free travel apps.



**Flight Aware:** Track any flight, check real-time airport delays around the world (see all inbound and outbound flights on a superimposed map) and check your flight status.



**GateGuru:** Get estimated security wait times and find the closest amenities - restaurants, shops and lounges - at hundreds of airports worldwide.



**iTranslate:** A simple and relatively accurate translation app.



**Medscape:** Identify any medication, confirming its uses, side effects and recommended dosage. (Especially useful if you and your doctor or pharmacist do not speak the same language.)



**Skype:** Make and receive inexpensive phone calls on the Skype network as well as local and international land lines while on the move.



**Weather+:** View current weather conditions for all worldwide weather stations.



**Wi-Fi Finder:** Locates the closest WiFi hotspot and how to get there. (With over 320,000 locations in 140 countries, chances are you won't be far from a connection.)



**World Customs & Cultures:** Explains countries' cultures and customs. (Examples: Did you know it's illegal to chew gum in Singapore? In Bulgari, shaking your head up and down actually shows disapproval.)



**XE Currency Converter:** Up-to-date exchange rates for over 180 countries and currencies.

will drive the stock market much higher, given the election risks in front of what could well be big tax increases and spending cuts in fiscal 2013.

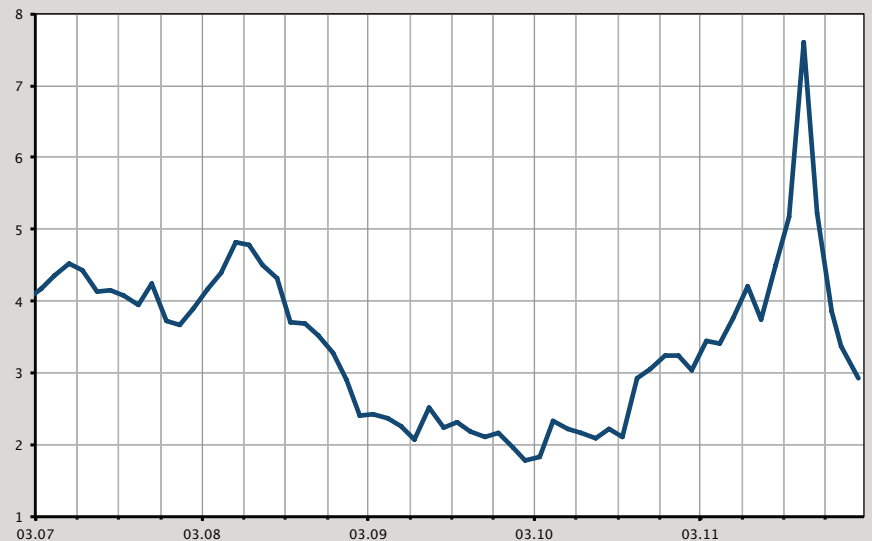
## Europe

The good news is that the catastrophic risk of a Eurozone breakup is off the table. The bad news is that while the bailout funds may hold the Eurozone together, the bailouts are turning private investors increasingly into junior partners, as groups like the IMF and the European Central Bank will always be repaid first. When everyone is optimistic (like today), this doesn't matter, but when worries about whether a country can make good on its debts are heightened, it is the private investor that will lose.

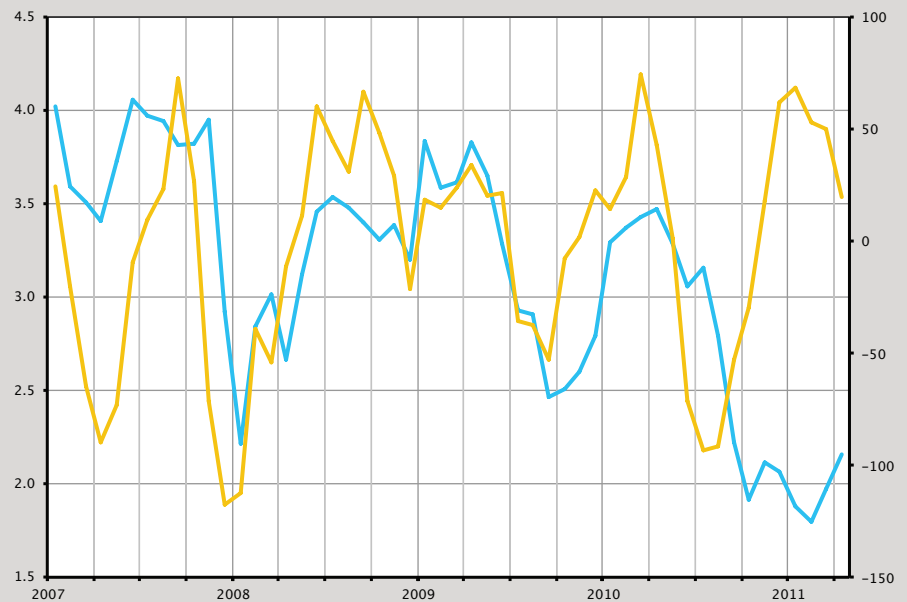
Investors seem to be in a euphoric phase, where the summer's problems have been forgotten as, for example, Italy's bond yields have fallen back to pre-crisis levels. **(See Chart 1)** At the moment, investors are equating the European Central Bank's three-year liquidity program with the Fed's quantitative easing program, the new fiscal compact with a form of fiscal union, and the pledge of no further private sector involvement with the risk-free sovereign bonds. These optimistic (but incorrect) views have been self-reinforcing. Unfortunately, a recession in Italy and Spain that extends into 2013 will likely be a catalyst for a sentiment reversal. Sovereign debt investors may then wake up to the reality that their subordination to official creditors exposes them to meaningful risks. While I believe that the productivity differences within the Eurozone are solvable and that long-term fiscal sustainability is achievable, investors are wrong to think that the path will be a smooth one.

## Entitlements

The developed world's massive unfunded entitlement problem dwarfs that of the budget deficit and government debt level challenges. Politicians in the U.S. and Europe have promised retiree pension and medical benefits to their citizens but have not provided the mechanism to pay for these promises. In that sense,



**Chart 1: Italian Three-Year Government Bond Yield**



**Chart 2: U.S. Ten-Year Yields & Economic Surprises**

■ Ten-Year Yields ■ Economic Surprises

“While I believe that the productivity differences within the Eurozone are solvable and that long-term fiscal sustainability is achievable, investors are wrong to think that the path will be a smooth one.”

these promises represent a “savings illusion” in that households view them as assets, yet at a national level there is no offsetting government liability. Whether taxes are raised to fund these benefits or household savings are increased to replace the retirement promises that are broken, long-term consumption and economic growth will be adversely affected.

The unfunded liability program President Obama inherited was not as bad as the Eurozone; however, it has deteriorated during his Presidency. One recent article estimated that debt and unfunded entitlements have reached \$190,000/person or nearly 900% of GDP. As an example, while the official 2011 deficit was \$1.3 trillion, the more broadly defined one-year increase in unfunded liabilities was three times larger at \$4.2 trillion. The President’s policies have been inconceivably counterintuitive and have resulted in the expected adverse consequences: damping the recovery and failing to foster long-term growth. Another stalemate is likely in Washington, as it is hard to see common ground for compromise between a president who has forfeited his authority to lead on economic issues and a Congress elected to block everything he proposes.

### Safe-Havens?

While Fed Chairman Bernanke has artificially suppressed Treasury bond yields, I believe it has done little good and has introduced risk going forward. The tip-off that he is ultra-dovish on inflation was his decision to replace the concept of a 1.5%-2.0% inflation ceiling with that of a 2.0% inflation target. Accordingly, Treasury bonds appear mispriced by at least two full percentage points, as 10-year Treasury rates would normally be in the 4.5% range as opposed to hovering around 2%. Treasury bond pricing has also disconnected from near-term economic growth, as yields had not increased as one would expect given signs that the U.S. economic recovery has gained traction. (See Chart 2)

Many investors worry about inflation and have sought low risk alternatives to Treasury

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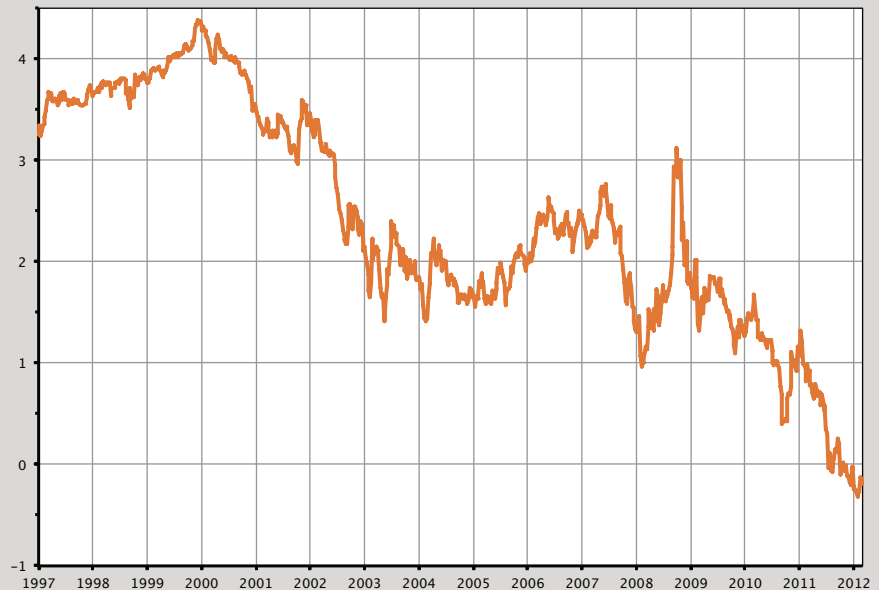


Chart 3: Historical Real Yield for TIPS



Chart 4: Inflation-Adjusted Gold Prices

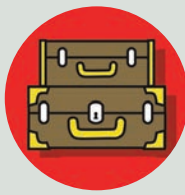


bonds that hedge against this risk, with inflation-indexed Treasuries and gold the most popular. Unfortunately, the consequence of years of strong performance means that these alternatives are poor investments and less effective hedges going forward. For example, the promised real yield (after inflation) on Treasury Inflation Protected Securities (TIPS) has declined from +3.14% to a negative number (-0.19%) today. (See **Chart 3**) Meanwhile, gold's appeal as an inflation hedge has been more than reflected in its price, which has reached a fifty-year peak on an inflation-adjusted basis (See **Chart 4**). Between the two, I prefer gold after its recent pullback but only as a hedge against near-term Middle East event risk.

## Portfolio Moves

I am reducing portfolio risk through the sale of domestic stocks, as equities have compressed multiple years of returns into a six-month period. Hedge fund exposure is correspondingly increased. Emerging market stocks rank highest, as valuations are attractive in countries often free from the debt and entitlement problems that plague the developed world. I am reducing European equities, but still prefer them to our equity market, which continues to rally despite being the least attractive equity market in the world. Rationalizing municipal bond portfolios, I am selling long-term issues with unfunded pension exposure. Alternative fixed income strategies include investments in the hard-hit catastrophe bond/reinsurance space as well as opportunities where investors can turn the Treasury bubble to their advantage, such as in securitized real estate debt. Overvalued commodity currencies, such as the Australian dollar, are vulnerable to Chinese growth disappointments and are therefore logical hedges in a world lacking attractive safe havens.

*For more information or for a copy of Sentinel Horizons, please contact Anthony DeToto at [adetoto@sentineltrust.com](mailto:adetoto@sentineltrust.com) or 713.559.9578.*



Travel Nightmares continued ...

## Here are some additional tips:

- Determine whether your medical coverage applies abroad and how you would use it with foreign doctors and hospitals. If you will be in remote areas or countries where you would not trust medical services, consider purchasing medical evacuation coverage (often available with trip cancellation insurance that must be bought within days of booking your trip). You also should consider emergency evacuation services that provide customized help and relief in the event of political insurrection, earthquake, etc.
- The International Society of Travel Medicine ([www.istm.org](http://www.istm.org)) maintains a directory of health-care professionals in nearly 50 countries. Or join the International Association for Medical Assistance to Travelers ([www.iamat.org](http://www.iamat.org)), which has a directory of English-speaking physicians, hospitals and clinics abroad.
- Take copies of the phone numbers for US embassies in countries you plan to visit. Contact information appears on the Bureau of Consular Affairs website at [www.travel.state.gov](http://www.travel.state.gov). The Office of Overseas Citizen Services in the State Department's Bureau of Consular Affairs may be reached for assistance with emergencies at 202-501-4444.
- Register with the Smart Traveler Enrollment Program. This free service at [www.travelregistration.state.gov](http://www.travelregistration.state.gov) enables the State Department to contact you if there is a family emergency in the US or if there is a crisis where you are traveling.
- Get a checkup and all appropriate immunizations before leaving. The Centers for Disease Control ([www.cdc.gov](http://www.cdc.gov)) travel health page has facts on prevalent infectious diseases by destination and their

correlating vaccine. Major US cities have clinics specializing in foreign travel medicine/immunizations. Get and fill prescriptions for antibiotics, Montezuma's revenge, etc. as might be necessary in your destinations.

## Technology is Great, But...

If you will be driving, take some maps in case your GPS breaks down. Our Sentinel officer reports that it is hard to find maps in small, out-of-the-way places where the GPS always goes haywire.

There is a good chance that your cell phone will not work in another country. Before you leave, call your cell provider to determine if your phone model works in the countries you plan to visit and any layover countries along the way. (Your Sentinel officer suggests that you take their global tech support phone number because the phone won't work even if they say it will.) To reduce your calling and data costs, you typically can add an inexpensive monthly data plan for the period you will be traveling.

Finally, don't rely on your smart phone as the sole repository of your hotel reservation, etc. information. Batteries do die at the worst possible times, reports our Sentinel officer. And, have a great trip!

*Sentinel welcomes Lissa Gangjee, our newest Senior Client Relationship Officer. Lissa leads client engagements, serves on our Executive Committee and, like Ross Nager, provides family wealth planning services for Sentinel's clients.*

*For additional foreign travel suggestions, please contact Anthony DeToto at [adetoto@sentineltrust.com](mailto:adetoto@sentineltrust.com) or call 713.559.9578.*



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