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Jewish Foundation holds course in rising seas

By PAUL HAIST

The worldwide fiscal crisis adds a new gloss to the term trickle-down economics. We are learning that if plenty and security at the top of the economic food chain ever trickled down to the benefit of the rest of us, so too do want and insecurity at the top of that chain—and seemingly faster.

In fact, want and insecurity may trickle down before you know it or before those we especially want to know it actually do know it.

Last July, a Wall Street Journal article asked, “Did a recession start in 2007?” Like most economic talk, the answer was not clear, not then.

But on Dec. 1 there was a moment of clarity. The National Bureau of Economic Research pegged the start of the recession at December 2007.

The seers at the WSJ and the NBER seem a little slow, at least if you listen to some people in Portland. John Moss said he and his colleagues noticed something importantly different about the economy last January.

Moss is the executive director of the Oregon Jewish Community Foundation, whose total investments in their most recent complete fiscal year declined in value by 2.9 percent from \$38.5 million to \$37.4 million, owing to the bear market—that after astonishingly strong performance the preceding year and steady growth through the years immediately preceding that year.

“We started to have more frequent Investment Committee meetings to examine what was happening in the market,” he said about the foundation’s response to what they saw at the start of this calendar year.

What did they see?

“The housing crisis,” said Moss. “There were problems in the subprime market and it was starting to hit (equity) market valuations.”

Storm clouds notwithstanding, the OJCF held its course, according to Moss. Bailing out was not an option for the foundation.

“We can’t disinvest,” he said. “We can’t just go to cash.”

Doing so, he explained, would “lock in losses” and, in such a high-volatility market, limit one’s ability to get back into the market when a bottom or other advantage is perceived.

Moss explained that the foundation’s investments are somewhat insulated by being strategically diversified among four asset pools: money market, the S&P, equity (stocks) and fixed (bonds).

“We could see the softening of the market, but it was very clear that we should stay the course because the basic qualities of our portfolio make it very risk diversified,” he said.

The insulation provided by diversification, however, does not make a portfolio risk proof nor does a commitment to holding the course until the storm passes prevent those such as Jewish helping agencies who rely on the foundation in the short term from facing significant challenges in the new fiscal environment.

The first six months of the foundation’s July 1, 2007, to June 30, 2008, fiscal year went well. That was July through December of 2007.

“The first half of the (fiscal) year we did really well,” said Moss. “In the second half two events happened: Investments started to drop in value and gifts started to dry up because of the declining stock market.”

A drop in value results in a drop in yield. That is problematic for Jewish agencies for which earnings on those of their funds held by the foundation form a part of their operating revenue.

“The drop in valuation is causing everyone to be much more cautious about monies held at the foundation. It causes an inevitable tightening of capital,” said Moss.

“It’s normal practice for agencies to draw on their interest. In the current economic environment, those

earnings aren’t there or are significantly reduced,” said Moss.

So far and for now, many cautious investors seem committed, like OJCF, to staying the course. Experts agree that being prepared for the storm— through, for example, the contingency implicit in diversification— was vital.

Writing in the Phoenix Business Journal, Mike Sunnucks quoted mortgage company manager Dan Morse who neatly summed up the wisdom of being prepared. “I don’t like to drive looking through the rear-view mirror,” said Morse. “Recession analysis helps us gain perspective, but if you focus on it, you will crash. Doing business the right way, with strategies and contingencies in place for all kinds of markets, is the answer.”