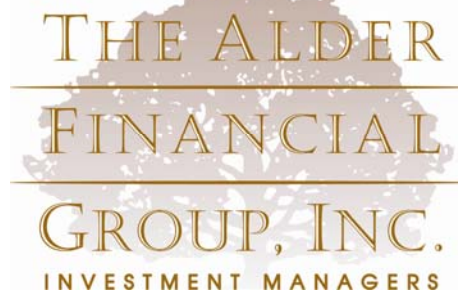


MARKET NEWS

Keeping our Clients Informed

September 19, 2008



Investing in Turbulent Times

As everyone knows, investors have faced an extremely challenging investment environment over the last twelve months. The confluence of higher inflation driven by energy costs, the still unresolved credit crisis, and election year politics has left many wondering “where to from here?” If you compare the global financial markets today to the financial environment ten years ago, today’s markets are substantially more interconnected and complex, which means that situations change at an amazing and sometimes alarming rate.

“Where to from here?” is a question with an answer somewhere in the tangle of hedge funds, leverage, swaps, CDO’s, quantitative finance and the like. But anyone who says that they have the answer to this question is kidding themselves.

As most people now know, the investment community’s capacity to anticipate the timing and triggers of financial shocks is virtually nonexistent. The last nine months has further supported that reality. Attempting to avoid a market downturn is just as risky as missing out on the gains. The only game in town is to ride it out.

To be sure, contemporary finance has become incredibly complex and there is no safe asset class. Admittedly, there are asset classes that do have stable values. But in a world of properly priced risk, good luck maintaining your purchasing power with their meager returns. This is a tangible problem. For example, go to the gas station or the grocery store and imagine the adjustment that you would have to make on a static income. This is especially true as we live longer in retirement. Prefer a CD? Then you must consider the long-term solvency of your bank. Risk is everywhere in life and it’s unavoidable. The trick is to find the right risk for you.

Risk is an interesting word that means different things to different people. For some, it refers to the potential of losing money. For others it means risk of not meeting goals, and still to others it could mean variability of returns. The classic definition of risk generally refers to the latter. But like you, we live in the real world and realize that it means all of the above. In times like these, risk assessment is very important and we take it very seriously. Be assured that we are always looking for ways to minimize any of the risk your portfolio might face.

The Lost Decade

We have all been told that stocks provide the best long-term investment returns. This is not an academic argument but in fact a historical truth. The only problem with this statement is that the definition of “long-term” is poorly defined.

A case in point is the last ten years. The approximate return of the S&P 500, which is widely viewed as a proxy for the U.S. market, is roughly 1.5% per year for the last decade. That’s right. Over the past ten years stocks have returned roughly half of money market rates. Adjust this for inflation and the true return is just short of zero.

So when does this faith in the equity market payoff? How long is “Long-Term”?

Rules of the Road

The current turbulence serves to remind us to expect the unexpected. The economy, both domestic and global, is always changing and with that goes the investment landscape. Such changes require that an investor live by a set of rules to help guide investment decisions during the occasional and inevitable market downturns. As a firm, we are no different. While we may not have a rigid and inflexible doctrine, we do follow certain standards when we invest your money. During these unusual times, we think it to be wise and useful for you to take note of some of the rules we think are important.

Market Timing

History has shown us that it is difficult at best to correctly guess market movements over the long run. Therefore, it is best to have a plan and stick with it.

Stay Invested

In turbulent markets it is critical to remain calm. One must avoid the temptation to panic and sell in such times. The goal is to “buy low and sell high,” not the other way around. Patience is a key attribute to have in volatile markets. If you have faith in the resiliency of the economy, the fundamentals will eventually present themselves and you will be successful.

Diversify

Diversification is a time tested rule. Live by the old saying: "Do not put all of your eggs in one basket." This concept is a key risk reducer. By spreading investments into many companies, countries, and sectors, you effectively spread your risk. This is what asset allocation accomplishes. As you know, for each client we maintain a unique allocation to various asset classes such as domestic stocks, international stocks, large and small caps, fixed income bonds, preferred stocks, and cash. The goal is to invest in different markets, thus reducing the chance that all of your investments will go down at the same time.

Re-allocate

This concept is tied to asset allocation. Once your mix of assets is established, you must periodically rebalance the portfolio to get the asset allocation levels back in line. Different assets will grow at different rates. Therefore, by re-allocating your investments you are in effect selling this year's higher performers (selling high) and buying the lower performers (buying low). Historically, these actions result in long term success.

"Cash and Cash Flow is king"

Having readily available cash is more important than ever during times like these. For those in the accumulation phase, having cash available when the market is going down gives us a chance to invest at lower prices. This is very similar to going to a department store and feeling excited when you bought something that was on sale rather than at full price. For those in the distribution phase, i.e. retirees, we always have a certain amount of cash available for everyday needs. Having additional cash available prevents selling assets at the wrong times to cover any cash needs that may arise.

Our clients should be accustomed to our talking points about cash flow. For any investor, maintaining investments that produce cash flow is critical. If our goal is the growth and protection of wealth then the production of cash flow should be paramount to success.

Controlling the Controllables

We feel it is smart to avoid worrying about those variables you cannot directly control, such as market movements. Instead, we focus energy on those issues we can control, namely expenses and taxes. We employ strategies that give our investors the ability to influence

each of those variables. By using low cost index funds and individual securities, we keep a tight lid on ongoing investment expenses and control the timing of taxes. Additionally, we utilize loss-harvesting strategies to minimize the taxes on future realized gains.

In Summary

We want everyone to take a deep breath and relax. We have to put these markets into historical perspective. A long term investor must expect troubled markets to occur every so often. It is perfectly natural to feel both nervous and cautious. In fact, in good times and bad, we are always cautious in our investment decisions. The main point we want to stress is that it is unwise and unhealthy to worry too much about everything. Leave the worrying to us. We will always do what we think is best for your accounts.