

Yr. End Returns

S&P Index

5.49%

Dow Jones Ave.

8.88%

NASDAQ

9.81%

MCSI/EAFE

11.63%

Sector

Performance

Large Cap Gr.

12.34%

Large Cap Val.

-.43%

Mid Cap Gr.

19.7%

Mid Cap Val.

-5.52%

Small Cap Gr.

11.08%

Small Cap Val.

-8.15%

Annual returns
provided by
Morningstar.com

A year for the record books?

I have been managing money for the better part of 22 years now and each year I am humbled at the extent of the things I haven't experienced. I can honestly say that this is one year I will remember for a long time because the markets did well in spite of the gloom and doom professed by many. The bad news was the economy slowed, the housing and credit markets imploded, the dollar continued on its downward spiral, and the oil prices –well you know. The good news was the international economies continued their strong advance, the markets across the board posted decent gains (look left), and the interest rates remained low thanks to the Fed.

Thanks for the recap but what's next?

In times of turbulence, the economists often answer this question by giving you every possible scenario and then walk away leaving you staring off into space wondering where your IQ went. As frustrating as these times are, I have learned that there are two things they are telling us; one, they really don't have a definitive answer and two, they are telling us that the best strategy is patience.

I believe the next two years will be a culmination of the events that created both the good and bad news mentioned above. The economy will continue to slow because of the overall reduction in spending power caused by the decrease in housing values. It used to be if you didn't have it you could get it from the equity your house – that isn't happening anymore. As a matter of fact, as our last StraightTalk discussed, the housing market and the mortgage industry are in for at least two more quarters of rough weather.

Currently, the GDP (Gross Domestic Product) growth rate is forecasted to decrease to about 1.5% in 2008. Additionally, the fastest growing international markets and economies have started to slow proving that the U.S is now and forever linked to global economies. As such, the housing and credit issues we are experiencing are spreading to other economies. To illustrate this effect, China, recently one of the world's strongest economies, will most likely post a growth rate of less than 5% in 2008. A big departure from their recent double digit gains.

Should you put your money under the mattress for the next year?

Yes – where do you live? Just kidding. Over any ten year period there has never been a time when the stock market didn't outperform the bond or cash markets. The reason is that the equity managers have the ability to seek out the best economies, the best sectors, and the best companies to provide above average returns. The managers in your portfolio have all been chosen for their unique ability to take advantage of these opportunities. Obviously, as you near retirement the percentage committed to the equity markets should decrease, but should always be a part of your growth strategy no matter what the market conditions. Remember, the key to long term investing is sound practices consistently applied!