

**Third Quarter  
2008 Category  
Market  
Performance**

Large Cap Core  
- 14.73%  
Mid Cap Core  
- 17.17%  
Small Cap Core  
- 11.19%

**Third Quarter  
2008  
Index  
Performance**

S&P 500  
-19.64%

DJ Industrials  
-16.73%

Lehman US  
Agg. Bond  
.63%

MSCI EAFE  
-28.58%

*These stats –  
provided by  
Morningstar -  
are a sample  
of the  
benchmarks  
by which  
investors  
should gauge  
the relative  
performance  
of their money  
managers.*

## The Market Rolled a -777 Good News or Bad News?

I was sitting at my desk at Merrill Lynch on October 19<sup>th</sup> 1987 watching the Dow drop in excess of 22% - far steeper than the notorious day in 1929 (12.8%). As it was my first real market shock, I was really unprepared for the panic that I witnessed. I was sitting among 50 or so of supposedly the most experienced and well learned advisors in the state, but the truth is we all were very afraid.

Since then I have gone through more than my share of market crises and have really tried to become a student of investor behavior in times of stress. The simple biological explanation is that stress releases higher levels of adrenaline and cortisol which inhibit the mind's critical abilities. This leads to falling back on old habits, and in investing, essentially fleeing the market.

The flight to safety is a natural reaction, biological or not, during severe market declines. It is one that really becomes a no lose situation for financial advisors because the burden of decision falls on the investor's shoulders. If the investor gets out of the market then the advisors can't be blamed for missing a recovery. The truth is, however, that this is a crucial time for all of us in terms of building wealth for retirement and the wrong strategy will have a substantial effect on your ability to achieve your stated financial goals.

I have and always will be a contrarian to those that make decisions based on fear. It is irrational to think that markets will always go in one direction and it is equally irrational to believe that the people of the United States won't strive to excel on what is clearly a world stage. Are there necessary steps we must take? Sure, and the economic recovery package is vital to the core of the recovery.

What happened in terms of the financial crisis was a travesty – it should have been avoided. The government is to blame for not regulating these financially engineered products, the financial firms are to blame for creating and selling them and the public is to blame for its overspending. Now – so what? – It's over; it will be fixed, and hopefully not repeated.

## My Opinion – It is better to invest in a bear market.

**The Market:** The market will remain volatile for a while but I believe it has or very soon will touch bottom. The economic package will provide the impetus for growth and the risk/reward ratio (how far an investment can decline versus its growth potential) has shifted in favor of good companies.

**Where to Invest:** Select international and commodity sectors must be a larger part of a well balanced portfolio. Clearly the emerging market nations, led by India, China, and Brazil, will have greater growth than the US. It is true they are slowing down but will show very strong gains as economies recover. In terms of commodities the law of supply and demand is very telling. Over the next decade it is forecast that there will be an additional 800 million people added to the middle class worldwide – all consumers that will put a strain on the supply of natural resources.

**Inflation:** Inflation has always been tied to commodity prices and I see no change in that correlation for the future. Rates will go up, but the Fed's plan is to always have measured movements, including a possible near term rate reduction to augment the recovery proposal.

**Housing:** Although the supply of available homes is dwindling the first real evidence that it is improving is forecast for mid to late 2009. Additionally, because we see some near term easing of mortgage rates, it may be prudent to refinance in the near future.

**Summary:** I believe this is one of those times when there will be some broken hearts if investors don't recognize the opportunity that is offered by such a market decline. It definitely requires courage and prudent investing, but is one that can provide substantial upside.