Letter to Clients Nov. 3, 2008

By Ryan Zacharczyk, CFP, CSA, CRPC

I finally have the great honor of writing all of you with some good news in these turbulent financial markets. So many of my past letters had been proceeding times of major market sell offs, that I figured it appropriate to write during a period of at least temporary market stabilization. As I write this letter we are coming off one of the best weeks of the markets history with a rally in the S&P 500 of almost 11% last week and our first back to back up days in more than a month. None of this is really that impressive, however, given the tremendous declines we've experienced throughout the month of October. As of this writing, the S&P 500 is still down 34% year to date.

The market has seemed to stabilized (at least for now). The panicked selling and dumping of all investments with even the slightest bit of risk has subsided. If and when it will return is anyone's guess.

On October 13th 2008, I sent a letter to all my clients and prospects making a fairly bold call (especially given the market climate of the time) to buy. I made it very clear I was not calling a bottom or predicting big returns in the short-term. I merely stated that equities were extremely attractive in relation to almost all other investments for someone willing to sit through some volatility and to give it time. Many of you took this advice, calling me to put new money to work in the market. This has paid off handsomely as the return of the market since that letter is over 10% in less than a month, a full three years worth of return in a Treasury Bond. I don't know if this is just a temporary breather before the market makes new lows or tests these levels again, but this is unimportant to our long-term view. Almost all of you received some benefit of this call as we rebalanced your portfolios when the Dow was hovering around 8300. (A Rebalance of a portfolio is when we put the percentages of assets back to the original proportions by selling what has done well, in this case bonds, and buying what has done poorly, in this case everything else). Rebalancing is the ultimate buy low sell high strategy.

I must again refocus the outlook of each and every one of you to the long-term picture. What if the market retests 7800 in the Dow in the next month or so? What if we have another wave of panic selling? We are not now, and have never been market timers or speculators. The one point I have always tried to make clear to you is that we are investors with a specific eye to risk management. You each have a plan, you each have secure money (emergency funds, bonds, cash) that will support your lifestyle for years to come, and you are all diversified. This is where the true value of asset management is, not in market timing.

This "crisis" has had a dramatic impact on our economy. We have had major bank failures, a tremendous shake-up in the securities industry, a large decline in home values, and a steep pullback in economic activity. In the past 30 years we have experienced many other crises, the 1987 stock market crash, when values dropped 22% overnight; the Asian crises, the Internet bubble, numerous wars, countless recessions, and even a period of stagflation (high inflation with no economic growth). Each crisis we have experienced was unique, but they were not different. This crisis is unique, but not different. Those who continuously harp on "this time is different" are the one's who get burned. How often had we

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heard it in the late '90's in regards to Internet stocks, or in 2003-2005 with the housing market. Bubbles and busts come and go and it is the greed during the bubble and the fear during the busts that lead to the biggest losses along the way.

We like to pretend that market downturns are infrequent, when in fact, they happen all the time. A 40% sell off is dramatic and scary, but let's focus on the big picture. Think about your plan, work your plan. This sell off, although unpredictable, was not unexpected. If we did not expect these unpredictable sell offs, there would be no need for bonds or cash in your portfolio. Even if you are retired and in your 60's, it is important to take a long-view. Although your portfolio is much more conservative than average, you could easily have 20 to 30 years of quality life remaining that will need to be paid for. Stocks will provide you with that income when the time comes.

Let's refocus on what's important. Step back and take a deep breath. Turn off CNBC, don't read about all the doom and gloom, kiss your spouse, hug your kids, tell your parents that you love them, and most importantly, get a good night's sleep. As read in this weekends Wall Street Journal, "Money has got us all a bit hysterical and it's time to reboot and remember what's really important. And if you are going to listen to people for investment advice, don't listen to the hysterics and the amateurs."

In the 200+ years of our economy's history it has never gone out of business. Although we have had our fair share of growing pains, the growth has always returned, markets have always trended higher, and wealth has always grown. The patient, diversified, tempered investor has always been the rewarded one. Those who trade on emotion and seek short-term returns will always wonder why their long-term returns are sub par. Although we are not yet out of the economic difficulties, have faith that the markets always look forward 6-9 months and 3 of the last 4 recessions actually saw the markets rally substantially during the period of actual economic decline (the market sold off so much before the recession was official that it rallied substantially once it became official). We've even seen that over the last few days as very poor economic data has led to a rally in the market. That means we could be poised for big gains on the horizon. But, just in case, we will maintain our diversification and look to the long-term future.

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