

Investment Advisory Newsletter

November 2008

In the thirteen years that I have been providing investment advisory services, this is by far the most difficult newsletter I have had to write. In the last quarter, from July – October, the overall markets declined 28%, bringing our loss from the October 2007 high-water mark to 39%. We have long ago passed the point at which we were just losing “paper profits” and giving back market increases. At this point we are seriously, heavily into losses of principal and hard earned savings.

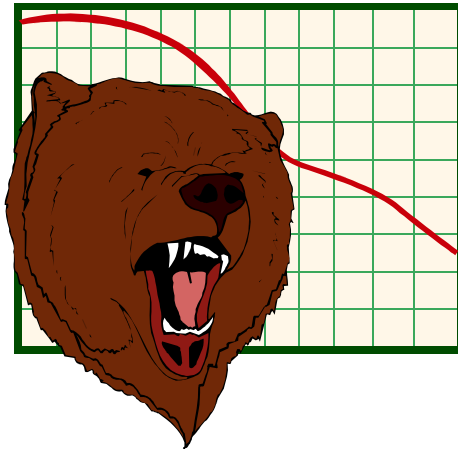
In this short time since the market crashed from October 1st to October 10th by 22%, there has been a blizzard of commentary analyzing the markets. Virtually every commentator has used the following wording:

- “Unprecedented Volatility”
- “Only precedent – the 1929 Crash or Panic of 1907”
- “History provides few precedents”
- “Historically voracious bear”
- “So few called this crisis before it happened”
- “Hidden risks in balance sheets”
- “Maddening in that we should have seen it coming – but didn’t”
- “Bubble bursting” – Speculators?
- “Diversification strategies failed to work”



At this point our savaged portfolios are demanding a new strategy, just when the lessons of the past say to hold on. In nine of the fifteen last market declines over 20%, the next year was positive, often strongly so. At each point in this enormous market decline, the question is “What do I do NOW?” One of the most unusual characteristics of this stock market crash has been the breadth of losses – every single equity category has had similar losses. Diversification simply has not worked. The only safety zones have been in government bonds and cash. I have made the occasional sales of poor performing equity, energy and international funds, moving these proceeds to cash or government bonds while we wait for the market to settle. Clearly more of these sales needed to have happened; and they may still be well advised even at this time.

It is noteworthy that advisors whose commentary I read (and your advisor also included) own portfolios that are likewise decimated. In the past 6 years we have been drawn into holding more equities and fewer fixed yield investments in order to increase portfolio return. These are exactly the portfolios that have been hurt the most. Especially hard hit are recent retirees, those heavily leveraged in debt, and those whose portfolio is their only financial cushion. The ones punished in this market decline were those who had invested in a way that history indicated appropriate, whereas those who had not saved at all and those who had ignored investing and left their funds in cash were left untouched.



Well, that's enough bad news. What I have seen since October 10th is a market that appears to be bouncing along the bottom, finding new points of resilience. At this point I continue to look to trim the more volatile equity positions, international funds and equity funds where appropriate. Defensively I am recommending enlarging cash or bond positions. Sensing that those who wanted to sell did, and that the speculators who lost did, I am still inclined to hold a conservatively diversified portfolio going forward looking for gains in the next twelve months that could (note that cautionary watchword!) be substantial.

On a personal level I sincerely thank you for staying the course. To a person every investor with whom I work has recognized that we are caught up in a largely unpredictable maelstrom and have not shot the messenger. I will be calling as many investment clients as I can in the next few weeks, but as always, do call me at any time that you have investment concerns, issues or creative opportunities.

Yours very truly,

Roger D. Werner