

The Bear Roars Louder

November 20, 2008

For those who have taken our advice to pay little attention to the market, we'll take this opportunity to bring you up to date! As of today, the Dow Jones Industrial Average (DJIA) has dropped 944 points, or over 11% for this week alone. In the 14 trading days of November, the DJIA has dropped 1,783 points, or 20%. Since the beginning of the year, the DJIA has dropped 5,711 points, or 43%.

To add insult to injury, November's 1,783 point/20% loss is now added onto the losses of October and September, bringing the three-month total loss on the DJIA to almost 4,000 points, or 38%. To put it in simple terms, if you owned \$100,000 of the 30 DJIA stocks on September 1st a mere 81 days ago, your stocks would now be worth \$62,000.

Move the measurement out a little farther and the picture doesn't get prettier. If you invested the same \$100,000 in the DJIA on October 9, 2007, your stocks would now be worth \$53,000 or almost 50% less. Other indices, such as the S&P 500, are suffering even deeper losses.

Make no mistake about it: we are in a nasty bear market, with seemingly no end.

We at FFA share the pain of our clients' losses, and we constantly struggle to deflect the consistent barrage of bad news so that we remain focused on the mission at hand.

The mission at hand for all of us is to achieve the goals we've set, and to adjust to circumstances beyond our control. Clearly, the market is beyond our control. However, the structure of our household portfolios is within our control.

In all cases, clients of FFA have portfolios designed for their unique life circumstance and time horizon. No client of FFA has 100% of their money in stocks. There are bonds and money markets in our mix of investments, for a reason. As the headlines crank out the latest trauma-causing results of the stock market, silently the money markets continue to earn money and many bonds as well.

We would be remiss in not addressing those who simply cannot tolerate the significant volatility anymore. While anyone who knows us knows we remain steadfast in our belief in the markets long-term, it is not our beliefs that ultimately matter - it is yours.

If you can no longer tolerate the extreme volatility of this current market, here are some strategies to consider:

- First, be honest with yourself and with us. There is no purpose in pretending things are okay when they aren't. If you are panicked, let's do something about it, now.
- Second, ask us for anything you need to help you learn more about your investments. Our resources are plentiful. We believe that knowledge is power.
- Third, understand that buying, holding, and rebalancing are a form of taking action.

In addition, here are strategies that seem appropriate for the right situation:

- For the money market portion of your portfolio, CDs make a lot of sense. The money market is paying about 1.6% now; 1 to 5 year CDs are paying up to 5%.
- Also for the money market portion of your portfolio, fixed annuities are gaining significant popularity. Current rates for a five-year annuity are over 5%, tax-deferred.
- For the bond portion of your portfolio, consider pure U.S. government bond funds. These appear to be good performers in the near and mid-term future.
- Invest in TIPs bond funds. TIPs (Treasury Inflation Protected) bonds offer a minimal yield but their values adjust to inflation annually. Yes, inflation is not an issue today. However, the mid-term to long-term future seems extremely ripe for inflation to rear its ugly head.
- Study the history of recessions; again, knowledge is power. The longest recession since WWII has been about 16 months (1981-82). If this current recession matches or slightly exceeds the longest postwar recession, it would imply a summer to late fall 2009 start towards economic recovery. The stock market historically has begun a rebound months before the economic recovery begins. We believe this pattern will continue...we just don't know when!

Finally, for those with long investment time horizons as well as more aggressive clients, we believe you are witnessing a once-in-a-lifetime investment opportunity. Continue adding to your 401ks, and pay attention to the quantity of shares you are accumulating vs. the dollar value. The current dollar value means nothing when your goals are many years away. In your case, a declining market benefits you by allowing you to buy shares at lower and lower prices.

We are fully cognizant of the magnitude of these times and hope our presence provides some comfort. We remain grateful and thankful for your trust and confidence. May you and yours have a blessed Thanksgiving.

Best Regards,

Berthann & Craig