



Berthann Jones, CFP® • Craig Newkirk, CFP®
P: 203-393-9508 • F: 203-393-9518
8 Whipoorwill Lane • Bethany, CT 06524
www.finfreeadvisors.com

Advocates for financial peace of mind

The Current New Reality

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For those who still have the ability to follow the markets, last week's, last month's, and even yesterday's actions have created lifetime memories. For those who have given up, let's just say that times remain interesting.

Yesterday, following the best week in the markets since 1932, the markets reversed course and dropped like a rock. The Dow Jones Industrial Average was actually the best performing index, dropping almost 8% or just shy of 680 points. The Russell 2000 Index, a measurement of small stocks, wasn't so lucky and dropped just shy of 12%, in one day!

Folks, you don't need us to tell you that we are in a new world, no more so than in the investment corner of it. We at FFA recall a time many lifetimes ago when the Dow Jones started swinging over 100 points a day; it was incredible and we were stunned at the frequency of 100 point swings. Of course, that was over 20 years ago! Now, the new 100 point swing seems to be 500 points, plus or minus a couple of hundred points.

Yesterday's excuse was the official recognition by our government that we are in a recession and actually have been in one since the end of 2007. Pardon our cynicism, but don't you think that the MBAs on Wall Street might have already figured this out? That this should come as a shock to the market defies explanation, other than to stand as proof once again that the short-term market is driven purely by emotion and emotions are raw and exceedingly negative.

Speaking of raw emotions, it is that time of the month again...statement time! Yes, once again we have to encourage you to show strength should you choose to open your statement envelopes. Once again, the markets have pounded our portfolios.

We have all just experienced an amazing three months, no less the last 13 months. In the last three months, one of our core bond funds, Loomis Sayles Bond Fund, has lost over 25%. One of our core stock funds, Selected American Shares, is down over 31% in 90 days. These are two premier mutual funds, with top-notch, experienced, brilliant managers running the show. Did they suddenly become incompetent?

We doubt it. The time is looming to identify takeaways from this global financial meltdown of 2008. We at FFA are not having a hard time identifying the most obvious one of all: that a receding tide lowers all ships. And what a receding tide we are in.

In this financial tsunami, almost every mainstream investment vehicle has been punished. No matter where investors turned, they were overwhelmed with losses – stocks, bonds, some money markets, commodities, and real estate all have taken a licking, as is reflected in our portfolios. Asset allocation as a process was tarnished but not broken. Cash, CDs, TD Ameritrade's money markets, and some bond funds have helped limit the damage as they are designed to do.

Does that mean asset allocation is a failed investment approach? We doubt it, we doubt it highly. In a financial storm such as the one we are in, no long-term mainstream investment approach will hold up short term. The key question is does the approach hold up long term and our experience tells us the answer is yes.

We at FFA bear the burden of each of the drops in your account values. Every day, every week, every month for too many times to count, we have watched our long-term managed portfolios continue to drop. Knowing that these drops impact our clients' lives provides us with the humbleness we need daily as we strive to counterbalance these drops.

We are humbled at the magnitude of the drops we have all experienced together. We are humbled at the near-criminal failure of our regulators, our politicians, our business leaders, our fellow investment professionals to prevent this preventable situation. And we are mostly humbled by the response of our clients, who have gone out of their way to make sure we are alright! No greater compliment could be paid us.

With all this being said, we await better days with a new administration arriving none too soon. We believe that your investments still remain sound. We believe that the massive amount of government intervention, not just in the U.S., has prevented a market implosion and will lead to better times. We believe that while the tunnel is still dark, the light at the end of it is getting closer.

We thank you for your trust. We will be preparing in-depth investment reports at year-end for each of our investment clients. As always, should you wish to discuss anything in the meantime, please don't hesitate to contact us. Thank you.

Best Regards,

Berthann & Craig