

2nd Quarter 2008 Commentary

I sat down to write this commentary after sifting through a mountain of interesting charts, graphs, and other academic data – all of which seeks to explain the recent past and provide insight into the future direction of the markets and the economy. Instead of boring you to distraction with my review, I thought it might be more useful to provide you with some perspective that's both reassuring and comforting in light of the investment climate. First, let's get some of the preliminaries out of the way:

Yes, oil has been the major culprit. It's now hovering around \$143 a barrel – up roughly 46% since the beginning of the year. And, the financial sector is continuing to digest a rather bitter pill of its own making – the credit crunch. Real estate continues to languish as a result. All of this has created headwinds for the investment markets this year. The obvious question is – where do we go from here?

Well, we've seen this movie before. Despite the cries that "it's different this time", it's not. Remember the oil shocks of 1972-73? How about the real estate meltdown of 1990-91? Or the Savings and Loan debacle of the 1980's? Pick a decade, any decade, and you can find a crisis or two which was surely a precursor to doom. In each case, the markets declined to reflect the news. And yet, somehow *in each and every case* the economy recovered and the investment markets moved on to new highs. History is a good teacher if we're willing to listen.

Let's acknowledge a few feelings we all have. Certainly, no one likes to see the value of their portfolio decline. That's natural. And, it's difficult not to get pulled into the "will the bad news never end?" mindset. Sometimes bad news travels fast, and good news seems to take the slow route. But it always seems to show up nonetheless. I have little doubt things will be any different this time. But, feelings are feelings, and we all share those same concerns. The critical issue is how we *react* to those feelings. I have preached the following point my entire career, and I will continue to do so:

The single most dominant component of returns is not investment performance – it's investor behavior.

From 1/1/1987 – 12/31/2006, the S & P 500 Index returned 11.81%. The average stock mutual fund investor, however, achieved a total return of 4.48% for the same time period.* "How can this be?" you ask. The only logical answer is bad behavior. Trying to time the markets, chasing yesterday's winners, running from temporary bad news, and other proven losing tactics. Yet, the patient investor, who waited out the crisis du jour

simply by following their original plan, was rewarded over that time period by an almost quintupling of their investment portfolio.

For those readers who require more factual evidence that patience works, take a look at what happens on the other side of market downturns:

Loss threshold	# of times since 1950	Average annual total return earned by buying stocks the day after the market first hit the threshold				
		1 Year	2 Years	3 Years	4 Years	5 Years
15%	12	14.1%	13.0%	11.3%	9.7%	9.8%
20%	8	19.2%	14.9%	13.3%	11.9%	10.7%
25%	6	26.9%	17.3%	13.8%	12.9%	13.0%

Source: Ned Davis Research, as of 12/31/07

According to Ned Davis Research, there have been 33 bear markets since 1900. In each instance, the markets have ultimately advanced to new highs. We all know past performance is no guarantee of future results, but the track record of our economy and investment markets has rewarded faith in the future, patience, and discipline with increased wealth throughout the years.

Regardless of whether you base your outlook on facts or feelings (or both - as most of us do), the historical evidence heavily favors setting your strategy on your long term goals and maintaining it through difficult times.

Building wealth is simple, but it's not easy. Here's what I mean: The practices of asset allocation, diversification, and rebalancing have built wealth for people over time. Period. It's quite simple and it's historically proven. But sometimes, events like today's economic challenges and other temporary distractions cause us to second guess our own common sense. That's why it isn't easy. Together, we have developed a long term strategy for your assets. We've selected the appropriate investments to get you there. Trust your common sense, history, and our counsel, and I'm confident we'll get you where you're going.

See you next quarter.

Jeff Helms, CFA

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