



## Market Commentary

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|         | Market Returns |              |                    | Market Returns |              |
|---------|----------------|--------------|--------------------|----------------|--------------|
|         | February       | Year-to-Date |                    | February       | Year-to-Date |
| DJIA    | -11.7%         | -19.5%       | MSCI EAFE          | -10.5%         | -19.4%       |
| S&P 500 | -11.0%         | -18.6%       | MSCI Emerg Markets | -5.7%          | -12.0%       |

**The Situation** Warren Buffet didn't see this coming, nor did the Harvard Endowment Fund, and while a few fortunate investors undoubtedly guessed right and got out in 2007, the vast majority of us are in the same boat. This decline savaged markets all over the world. It has been relentless, offering no significant rallies. In fact, the declining pace quickened during October and November, then again in February and so far in March. Around the world markets have declined by 50% or more.

**What do we do now?** The markets will recover. It will be a long time before we reach old record levels and the recovery will not be steady or linear. Many believe we are overdue for a powerful rally. Steve Leuthold, one of the all-time great investment managers and market curmudgeons, has predicted a 50% gain by year-end from current levels. Of course, a 50% gain after a loss of greater than 50% leaves you less than halfway back. Regardless, who wouldn't take that! But a big rally is not a given and still leaves the question of what strategy to adopt.

**Stay the Course** This is one end of the strategy, requires a steely constitution and great optimism, and can include rebalancing allocations to bring equity exposure back to your stated objective. This classic approach to money management prompts one to buy depressed assets while selling those that have held up well, but after what we've just experienced, it's like telling a novice skier on a steep hill to lean forward.

**Total Relief** At the other end of the action spectrum are those for whom the market declines have begun effecting their health (elevated blood pressure, ability to sleep, indigestion, chest pains). Besides maybe calling 9-1-1, those investors should significantly, and immediately, reduce equity exposure to a risk level with which they can comfortably live. Remember, if one's health goes, the Dow Jones Averages are of little import.

**The Wide Middle Ground** Most people currently reside between resolve and despair, but feel they need to act. In this case we should revisit their investment allocations. This will probably result in a lower equity exposure. Our recommendation is after determining that new equity allocation, we move 40% of the way toward that new level, with the remaining amounts invested at regular intervals of 20% each over several months.

**Alternatives to Stocks** There are many choices available in the fixed income sector. High yield corporate bond funds offer yields around 10%, and have the potential to rally even before the equity markets. Investment grade corporate bond funds offer yields of about 5.7% and should recover even more quickly than stocks and high yield bonds from the indiscriminate selloff they experienced late last year. Treasury notes with inflation protection (TIPS) have the potential for significant appreciation as the flood of rescue and stimulus money gains traction and raises the specter of inflation.

**Act** We are contacting our clients, and encourage them to call us first if they want to talk before hearing from us. We want to review where each of client stands and agree on a plan of action, even if that plan is to do nothing. Remember the mood in June, 2008, as crude oil approached \$150 a barrel? World economies were booming with no end in sight, yet less than a year later, we have a global recession. The current despair surrounding the equity markets will abate eventually. By year end the investment climate should be better.

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