

Weekly Commentary

January 22, 2008

The Markets

Fasten your seat belts.

There are times when market sentiment shifts and investors (speculators?) start functioning as a monolithic block and they either head for the exits all at once or they pile into the markets all at once. We may be at one of those times when investors start heading for the exits.

Let's take a brief look at history. On October 9, 2002, the Standard & Poor's 500 Index closed at 776. Five years later, on October 11, 2007, the index reached an intra-day high of 1576. So, in five years, the stock market doubled, according to data from Yahoo! Finance. That's a very respectable 15% average annual return.

Well, just like a helium balloon, what goes up, must come down. Stocks have been experiencing a rough time lately as investors became concerned about credit market issues and a slowing economy. As interconnected as the world markets are these days, once a trend gets started, people tend to pile on and possibly exaggerate the reaction to economic events.

The government is not blind to what is happening. They try to do what they can through economic stimulus plans and cutting interest rates. Those activities may help cushion the blow but ultimately, we'll need a change in sentiment from one of fear to one of, dare we say...greed.

While we don't like a down market, we do our best to try to soften the blow for you. We also realize that down markets tend to create value opportunities and they may set the stage for the next leg up in the markets. We continue to closely monitor the situation.

Returns through 1/18/08	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrials	-4.0	-8.8	-3.7	4.4	7.5	4.4
Nasdaq Composite	-4.1	-11.8	-4.5	3.6	11.4	3.9
Standard & Poor's 500	-5.4	-9.8	-7.4	3.5	8.3	3.1

Sources: Yahoo! Finance, Barrons. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. Three-, 5-, and 10-year returns are annualized. Assumes dividends are not reinvested.

ARE INVESTORS WORKING THROUGH THE FIVE STAGES OF GRIEF MODEL

introduced by Elisabeth Kübler-Ross in her 1969 book, *On Death and Dying?*

It's an interesting idea that was posed by Barry Ritholtz, CEO and Director for Equity Research for Fusion IQ, in a January 7 blog. As you may know, the five stages of grief in the model are:

1. Denial ("This isn't happening")
2. Anger ("It's not fair")
3. Bargaining ("Just let me live until my grandchild is born")
4. Depression ("I don't care, just let me go")
5. Acceptance ("I'm at peace with what happens")

According to Ritholtz, here's how investors are working their way through the five stages:

1. Denial: Initially, investors felt like the housing and subprime problem was just a blip that would be over in a few months.
2. Anger: Probably best personified by investor and media personality Jim Cramer's now infamous "market meltdown" tirade on CNBC on August 3. If you're curious, go to www.YouTube.com and search for "Jim Cramer market meltdown."
3. Bargaining: Pundits and politicians alike are now calling for big interest rate cuts and federal stimulus packages, figuring that will likely stave off a recession.

Ritholtz believes stages four and five have yet to occur. After the week we've just had though, some investors might think we're heading toward stage four. Of course, we're not alarmists and we're not predicting a depression. However, in the way we're applying the model to the financial markets, we'd define a depression as an emotional state, as opposed to an economic depression.

Emotionally, investors could reach a "depressed" state and simply throw in the towel on their investments. When that happens, it could be a sign that a turnaround is near. Remember the old saw, "It's always darkest before the dawn." When the markets look bleakest, that may be the time to dip your toes in the water.

Successful investing takes more than just doing good research. It also takes strong emotional control and the ability to swim against the tide. We do our best to embody those skills on your behalf.

Weekly Focus – Think About This

"Patience and fortitude conquer all things." – Ralph Waldo Emerson

That quote is great advice for the market we are experiencing. First, we need patience. We need to understand that markets go through periodic ups and downs and that this is normal and expected. Second, we need fortitude. Dictionary.com defines fortitude as "strength of mind that enables one to endure adversity with courage." It does take strong emotional control in these types of markets to keep a cool head and make well thought out, rational decisions that take advantage of the circumstances. That's why you hire us and that's what we try to do.

Best regards,