Weekly Commentary
July 14, 2008

The Markets

Investing can be a bit like the weather on Mount Rainier in June—very unpredictable. You could have a horrendous blizzard one day and then a glorious, warm sunny day the next. That just about sums up the recent action on Wall Street.

The daily mood swings on Wall Street were evident last week as the Dow Jones Industrial Average closed down on Monday, then was up, down, up, down for the remaining four days of the week, according to *Barron's*. In fact, for the 50 trading days ending July 8, the S&P 500 had 15 days when it went up only to be followed the next day by an even greater decline. That's the highest number of times over a 50-day period that we've had "up one day and down even more the next day" since 1940, according to Bespoke Investment Group. It looks as though the blizzard is prevailing right now.

No matter how you slice it, the overall performance of the broad market averages is weak. As of last Friday, all three of the domestic stock market indices listed in the chart below, were at least 20% below their all-time highs, according to Bloomberg. That's the conventional definition of a bear market.

Financial stocks once again took center stage last week as continued concerns about the health of banks, brokers, and Fannie Mae and Freddie Mac weighed on investors, according to Bloomberg. Of course, it didn't help that crude oil and gasoline futures hit record highs last week and the dollar continued to drop in value against many major currencies.

While the financial markets may look bleak at the present moment, we have to put emotion aside and look at this as an opportunity in the making. At the Berkshire Hathaway annual shareholder meeting this past May, Warren Buffet made a comment that bears repeating. As published in a July 12, *Wall Street Journal* article, he said, "If a stock [I own] goes down 50%, I'd look forward to it. In fact, I would offer you a significant sum of money if you could give me the opportunity for all of my stocks to go down 50% over the next month." Hmm. Maybe declining stock prices is not such a bad thing after all?

Okay, so how is the current bear market an opportunity for us? Well, we have to carefully analyze the investment opportunities and then selectively make investments that we believe are poised for a turnaround. Eventually, this market should reverse course and start a new bull market and we'll try to take advantage of that.

Returns through 7/11/08	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrials	-1.7	-16.3	-20.2	1.8	4.0	2.0
NASDAQ Composite	-0.3	-15.6	-17.3	1.6	5.2	1.3
Standard & Poor's 500	-1.9	-15.6	-20.2	0.5	4.4	0.6

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

SIR JOHN TEMPLETON, ONE OF THE GREATEST INVESTORS OF ALL TIME, and later in his life, a generous philanthropist, passed away last week at the age of 95. In honor of his passing, here are a few of his investing insights that we'll remember long after he's gone:

- Be a contrarian. In a 1995 *Forbes* interview, Templeton said, "People are always asking me where the outlook is good, but that's the wrong question. The right question is: 'Where is the outlook most miserable?'" He was a firm believer in investing at the point of "maximum pessimism." An avowed value investor, Templeton liked to buy when everybody else was selling and sell when everybody else was buying. It was his way of "buying low and selling high."

- Don't be afraid of big bets. When he felt confident, Templeton was not afraid to put a significant amount of his money in one area. For example, back in the 1960s, he was highly concentrated in Japanese companies because he felt they were extremely cheap. Of course, big bets can turn into big risks if you make a bad decision. Fortunately, for Templeton, his bad bets were few and far between. By buying stocks that were low priced and out of favor, he had a built-in "margin of safety."
- Don't worry about the direction of the markets. According to a 1978 *Forbes* cover story, Templeton said, "I never ask if the market is going to go up or down because I don't know, and besides it doesn't matter. I search nation after nation for stocks, asking: 'Where is the one that is lowest-priced in relation to what I believe it is worth?' Forty years of experience have taught me you can make money without ever knowing which way the market is going." For Templeton, it all boiled down to finding stocks that had value and could go up regardless of what is happening to the broad market.
- Remain humble. From humble roots, Templeton never let success go to his head. He said, "An investor who has all the answers doesn't even understand all the questions. The wise investor recognizes that success is a process of continually seeking answers to new questions." We'll never bat 1,000%—nor do we have to. We do our best and then try to learn from our mistakes.
- Don't panic or be too negative. Templeton's advice here is quite timely. He said, "There will, of course, be corrections, perhaps even crashes. But over time our studies indicate, stocks do go up and up. In this century or the next, it's 'buy low, sell high.'"

Like wise grandparents, we can learn from our elders. Templeton is certainly one of the all-time greats and his words are worth listening to.

Weekly Focus – Whom Do You Trust?

Here's a simple test to determine if you can trust someone. Ask them if they drink coffee. It turns out that the five countries whose citizens trust each other the most are also the five countries with the highest per capita coffee consumption, according to NationMaster.com. Is this a simple case of data mining or is there something special about coffee drinkers?

Best regards,

The Advocate Group

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

* The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks.

* The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.

* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

* Consult your financial professional before making any investment decision.

* You cannot invest directly in an index.

* Past performance does not guarantee future results.

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