



THE ADVOCATE GROUP

A Bridge to Financial Clarity

Weekly Commentary September 2, 2008

The Markets

As we wrapped up the traditional end of summer last week, buyers and sellers were scarce on Wall Street.

For the first three trading sessions last week, volume on the New York Stock Exchange was the lowest of the year, according to Briefing.com. Apparently, investors decided it was time to relax a bit. Unfortunately, for those investors who did stick around, it was a bumpy ride. The market experienced three days when the Dow Jones Industrial Average rose or fell more than 100 points, according to *Barron's*. Two of those instances were negative.

Despite the lack of trading volume, there was no shortage of market-moving news. On Monday, the Dow dropped more than 200 points on renewed credit crunch jitters, according to *The Wall Street Journal*. On Thursday, the Commerce Department released revised GDP numbers, which showed that the economy grew a solid 3.3% in the second quarter, up sharply from the original estimate of 1.9%. That positive news helped spark a more than 200-point gain in the Dow, according to MarketWatch. And, then on Friday, weak personal income numbers and a downbeat earnings report from Dell Computer contributed to a 171 point loss in the Dow, according to MarketWatch. Of course, Hurricane Gustav didn't help matters either.

The relatively light volume last week probably exaggerated the market swings. However, when the market moves sharply in different directions within the same week, it may be a sign that investors lack conviction. To investors who believe the market is simply efficiently reacting to new information, those swings are normal. Other investors look at the swings as further indication that this market is still trying to find direction and that it lacks conviction.

No matter which set of investors is right, the market seems stuck in a broad trading range. This yo-yo effect can be frustrating, but we understand that investing is not a sprint; it's more like a marathon. And, we continue to do all we can to keep you prepared to go the distance.

Returns through 8/29/08	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrials	-0.7	-13.0	-13.6	3.3	4.2	4.4
NASDAQ Composite	-2.0	-10.7	-8.8	3.5	5.5	4.7
Standard & Poor's 500	-0.7	-12.6	-13.0	1.9	4.9	3.0

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.

BOILED DOWN TO ITS CORE, what is the simplest formula for making money in the stock market? Arguably, you could boil it down to "buy low, sell high." Conceptually, it's hard to argue with

that cliché, but practically, it's hard to act on it. But, what if we could add some “practicality” to the cliché? Would that improve our odds of being a successful investor? Let's find out.

One of the most important questions we have to answer is, what is low and what is high? When it comes to investing, low and high are only discernable in hindsight. For example, back in May 1997, Amazon stock was selling for less than \$2 per share on a split-adjusted basis, according to Yahoo! Finance. One year later, in May 1998, the stock was selling for more than \$7 per share, split-adjusted. Now, one could argue that Amazon was “low” in May 1997 and “high” in May 1998 because the stock had more than tripled in one year. Would May 1998 have been a good time to sell Amazon?

If we fast-forward a bit and look at the following 11-month period from May 1998 to April 1999, the data shows that Amazon stock rose from a little more than \$7 per share to more than \$100 per share. So, what looked like a high price in May 1998 actually turned out to be a low price when viewed just 11 months later. The point is simply that “low” and “high” only become clear with the benefit of hindsight. However, sharp investors apply some other measures to help them discern what's low and what's high. Here are a couple examples.

In a December 14, 1996, article in *Financial Times* titled “Get Smart...and Make a Fortune,” super investor Jim Rogers discussed how learning to spot periods of extreme “conviction of certainty of all the participants” is one way to become a successful investor. By this he meant when you read in the media about “the new era” or your cab driver starts talking to you about stock tips, then you know that we may be near a top in the market. The same is true near the bottom of a market. When all you hear is doom and gloom and the magazines start heralding “The Death of Equities,” that may be a time to get in because the market may be near a low point.

Rogers went on to say, “It is learning to listen to the gloom and doom at bottoms and question it, and to the exultation at tops and question this as well, that makes a sharp investor.” In other words, he's suggesting you be a contrarian and go against what the crowd is doing at times of either extreme exuberance or devastating despair. No doubt it is hard to go against the crowd, but that's what many successful investors have done. Rogers ended his article by saying the smart investor, “Learns to buy fear and panic and to sell greed and hysteria.”

A second investor that you're probably more familiar with is billionaire Warren Buffett. Adding more context to Rogers' comments, Buffett said, “You are neither right nor wrong because the crowd disagrees with you. You are right because your data and reasoning are right.” Buffett has no problem going against the crowd and when he does, it's based on detailed analysis and sound reasoning. Frequently, he buys stocks that are somewhat out of favor (i.e., low in price, but high in potential value) and he reasons that eventually the crowd will come around to his point of view.

In another insightful comment, Buffett said, “An investor should act as though he had a lifetime decision card with just twenty punches on it.” His point was we have to be patient. Great investment opportunities don't come around that often so, rather than swinging wildly at lots of pitches, we should wait for those times when the odds appear to be in our favor.

Both Rogers and Buffett understand the concept of buy low and sell high and they seem to be experts at understanding investor psychology and turning that knowledge into winning investments. They also seem to have enough patience to wait for the opportunities to arrive. As we look at the stock market today, it's clearly down from its highs and there are many naysayers. Rogers and Buffett have successfully used these two ingredients to make winning investments in the past. And while no

strategy can assure success or protect against loss, we continue to monitor opportunities and we'll do our best to take advantage of them on your behalf.

Weekly Focus – Think About It

“In every walk with nature, one receives far more than he seeks.”

– John Muir

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.

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