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Investment Insights

December 2008

New York! New York!

Once upon a time you could see a Broadway Show in New York for less than ten bucks. It was standing room, matinee only, but less than ten bucks. The rule was that if there were vacant seats you could take one of those vacant seats at the first intermission. On one of my summer cruises as a midshipman, the ship had put into New York for a few days of freedom. Two of us had teamed up to see some Broadway shows and take advantage of this standing room only gig. Invariably at the intermission, we'd move into vacant seats just a few rows from the stage. We saw three Broadway musicals in three days for a grand total of thirty bucks. The one I remember the most was Camelot. Richard Burton, Julie Andrews, and Robert Goulet (his debut into show business fame) starred. The show was fantastic!

After the show, dressed in our midshipman service dress blue uniforms, we went back stage. We knocked on Richard Burton's (King Arthur's) dressing room door and he bellowed to us to come in. He was sitting in his shorts at his dressing table removing makeup. Not knowing exactly what to say, I blurted out we'd like to see Julie Andrews. He laughed and said "Well go on over, knock on her door, and tell her it's Richard Burton". We didn't go that far, but we did knock on her dressing room door and she too invited us in. We entered and she was very modestly draped in a robe (as you might expect from the future Mary Poppins). She was sitting at her dressing room table, in front of the mirror, rubbing her face with cold cream. Two things happened to me. I instantly fell in love with Julie Andrews! And, I was astounded that Julie Andrews, the beautiful Queen Guinevere in Camelot, had very apparent and distinct freckles on her cheeks. Life was so interesting and so good!

Now you may be thinking what the devil does this have to do with my portfolio or anything else about investing? We'll see.

Every so often in life, more often for some I suppose than for others, opportunities present themselves. How many times have you been presented with an opportunity and failed to see it or just didn't do anything about it? You're probably kicking yourself now just thinking about some of those opportunities lost. We've all had those experiences. Part of the maturing and wisdom-gaining process I guess is developing intuition about, and acting on opportunities that arise in the routine of life. Opportunity though usually has risk attached. The key I believe is to act on opportunities when the associated risk is acceptable. In going backstage to meet Richard Burton and Julie Andrews the only risk we took was the risk of being ushered out, or the risk of not being invited in. It was acceptable and low risk and it did not go against us. Our reward was that we actually got to meet and, for a brief moment, relate to these two famous actors rather early in their careers. Our reward was a bright spot in our memories – very nice memories to have.

Our mantra, as most of you know is **Do no harm and make money*** (please read sidebar). In this pursuit we continually search for opportunities, and assess those opportunities and their risks, relative to competing ideas and existing investments that we hold. Basically, we want to divide up money to best advantage across asset categories, and in those securities that give us the best reward-to-risk opportunity. Right now, there are many opportunities with very acceptable longer-term risk. Many stocks are at excellent values as their prices are being driven down in this ongoing global fire sale. At this point, we believe it's wiser to remain invested or to become invested (in the right places), tolerate the remaining roller coaster ride, and have patience, rather than getting out and then rushing back in after prices have risen. The latter approach (it's called trying to time the market) is well documented as a losing strategy. *(continued on next page)*

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S&P 500 Look back

2000	-9.11%
2001	-11.89%
2002	-22.10%
2003	+26.68%
2004	+10.87%
2005	+ 3.00%
2006	+ 13.62%
2007	+ 3.52%

NASDAQ Look back

2000	-39.18%
2001	-20.78%
2002	-31.25%
2003	+50.76%
2004	+9.14%
2005	-1.4%
2006	+7.87%
2007	+ 9.27%

YTD thru 11/30/08

S&P500	-38.9%
NASDAQ	-42.1%

10/11/2007 HI thru 11/30/08

S&P500	-42.3%
Mar 2000 HI thru 11/30/08	
NASDAQ	-44.6%

There is no risk-free investment! Investment portfolio values fluctuate and past performance is never a guarantee of future results. "Do no harm" translates into structuring and managing an investment portfolio to conform to a client's risk tolerance and time horizon. Proactive asset allocation, diversification within asset classes, and continual monitoring and risk management of each position are methods we use in structuring and managing portfolios. Our approach includes corroborating fundamental research, with capital markets supply-and-demand research also called technical research. At times we will use conservative hedging techniques to limit downside risk.

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October 10th and November 20th were two panic selloff days in the markets. October 10th saw 2,901 new stock lows. November 20th saw the Dow index hit a lower low, but it was accompanied by only 1,891 new stock lows compared to Oct 10th's 2,901 new lows. That was a positive sign that we call a positive divergence. Last week, several other encouraging supply-and-demand signs popped up suggesting demand (higher prices) might be regaining control in the market place. We are now on the offensive but the up-and-down movement remains extreme. Until that turbulence settles down some, we'll be making moves, but will also maintain a cautious "we'll see" attitude. As, and if, more pieces of the supply-and-demand and fundamental puzzle fall in place on the side of demand (higher prices), we'll become more aggressive.

Our portfolios, while down, are generally doing much better than the broad market indices. We plan on taking advantage of that head start in the recovery process. In the past two weeks, the relative strength of stocks has begun to outpace that of the money market and bonds. That's good news for stocks. Hopefully stocks will continue to improve their money-making strength relative to cash and bonds in the days and weeks ahead. Major stock indices definitely remain in a down trend. Even so, there is much room for an upward move in stock prices before higher stock prices hit significant resistance.

There remains a lot of fundamental economic damage to be fixed in the years ahead. We're hopeful though that a higher stock price scenario will play out in the weeks and months ahead. We know that we could well see lower bottoms. In any case, it is worth keeping in mind that stock valuations at this point are excellent. It is best to keep the longer term in mind right now because this extreme roller coaster ride could well continue in the short term.

I'd like to ask you to think about prospects who may welcome our help in restoring their portfolios after the damage that this year has wrought on them. There are many investors at-large who are down 35%-50% or more in their portfolios. We can help them reallocate their holdings so as to take best advantage of the strongest reward-risk areas in the market and provide continual due-diligence management of their portfolios. The idea is to provide them with a risk-managed approach to recoup losses and to accelerate the rebuilding of their nest eggs as the market works to correct itself.

Before this year, 5% moves of the DJIA in either direction were rare, having only occurred 14 times since 1961. In 2008 there have already been 12 moves of plus or minus 5% in the DJIA. There also have been many changes, and there will continue to be changes, in leadership in the markets. It is important to investment health to put money to work in the right places. We continually strive to be the best in our industry in growing and protecting our clients' assets. Warren Buffett, renowned for his investment prowess, and one of the wealthiest investors in the world, is down more than 50% this year. That fact kind of punctuates 2008's difficulties for investors. In any case, we continue to do our best to work hard and smart at daily due diligence with the goal of being among the best amongst our peers. Give us a call or e-mail us if you can think of someone who would appreciate our services.

We wish you a very Happy Holiday Season and a Healthy, Happy, and Prosperous 2009!

