

Advice4retirement.com

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Quarterly, I send my investment newsletter to friends and clients. The intent is to share some of my more interesting views and research. I hope you find it interesting.

Sincerely,

A. Van Richards

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"the opinions of many will outweigh the actions of a few"

What should the average person do?

Over the past few weeks, I have had numerous conversations with clients and friends about their money and investments. The markets' and the news headlines will have changed by the time you read this, but the advice will still apply. What do the problems in the economy mean to the average person? If you're not a financial expert, the economic happenings in the news are more than likely confusing. Even some experts are dumbfounded. Here are a few recent newspaper front-page headlines:

- Houston Chronicle ¹
 - "Dow Drops Nearly 200 More"
- Dallas Morning News
 - "Paulson: global markets remain strained"
- New York Times
 - "Central Banks Coordinate Global Cut in Interest Rates"
- Wall Street Journal
 - "Central Banks Cut Rates World-Wide"

To the general public, the biggest affect these headlines are having is fear. Fear about what will happen and how will the headline news affect people's lives. And the big question is . . . what should the average person do? First you must realize and accept that there is not much that the average person can do to change the course of events currently in play. And that's OK. Focus on what is close to you,



family, work, etc. Much of the fate of our financial system is in the hands of financial regulators. It's OK to have fear. Just don't let that fear overwhelm you and force you into doing things you might regret later. If you feel you must make a change in our investment strategy, feel free to email me at van@advice4retirement.com I'll be glad to be a sounding board.

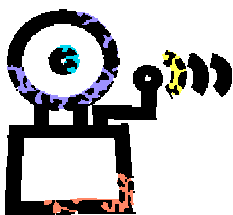
Comparing past and present.

If you are inclined to do something further, follow what your lawmakers are doing and communicate to them your opinions. "No man is an island"², the opinions of many will outweigh the actions of a few.

Regardless of the news headlines, our society will continue to thrive. Some have compared our situation to the Great Depression. Time magazine refers to it as Depression 2.0³. It sells magazines and in that au-

Comparing past and present. (continued)

nothing. Today, our system of government and many governments around the world are being proactive. There are also safety programs in place to prevent the financial disasters of the 1930's. Then, one-third of the population was unemployed. The U.S. Department of Labor reports September 2008 unemployment at 6.1 % and we have unemployment insurance. Then food was scarce and people starved. Today we have food stamp programs and various other food programs. Then the elderly were left without income. Today we have social security. Then consumers lost everything they had in banks and insurance companies. Today we have the FDIC covering bank depositors and Guarantee Associations of States covering insurance companies within their limits.



"They are the same companies that they were before the financial crisis, doing the same business, now they are just cheaper."

Independent Advice from an Independent Advisor



Who will ring the bell when we hit bottom?

Another big question on everyone's mind is when will the investment markets stop going down, when will we hit bottom. Years ago I learned that there is no bell that rings when the markets hit the top and there certainly is no bell that rings when you hit bottom. When looking at investments, the ONLY way to have the potential to win is by owning investments. Sitting out you have no chance at all. You cannot time the market. There are some publically owned companies that are facing tough times and will continue to have financial difficulty. Just like always, these companies may fall to the side; these are not the compa-

nies that we want to own. Research and diversification are keys. The companies (portfolio of companies) that we want to own are those that have solid businesses. They are the same companies that they were before the financial crisis, doing the same business, now they are just cheaper. More directly in this circumstance, I continue to recommend that clients avoid housing stocks, mortgage backed securities and financial stocks. I suggest that they lean heavier on recession tolerant stocks like consumer staples and health care stocks. However each investor's allocation is unique and should be structured around their

financial goals. Most people are concerned about what will happen to their investment savings. I would like to say nothing, but I can't. There are those investors that will sell and buy at the wrong time. And those investors that load up on the wrong assets. However if you have a well diversified portfolio and you are investing for the long term, the answer is probably nothing. But notice that I said "probably". A true fact about investing is there is no guarantee. If you feel our economy will come through this downturn like it has in the past 13 recessions, then go forth and invest. If not, then look for more guarantees in whatever helps you sleep at night.

The story behind the headlines

I opened this Investment Letter with a few news headlines. Here is my opinion on those headlines. "Dow Drops Nearly 200 More". The Dow is the Dow Jones Industrial Average. It is an index, a list of 30 of the largest companies in the United States. It serves as a

The story behind the headlines (continued)

gauge for the economy. The index scale stands at 8451.19. It will surely be a little different by the time you read this article. One year ago on October 17, 2007, it stood at 14,164. That means that the average stock value in that index has decreased by 40.33%. No question about it, that is a lot. The last time the market fell this much was in October 1987. That is the year that I began my career in the financial industry and I am reminded of Sam Walton's comments, the late founder of Wal-Mart. USA Today reported Mr. Walton's net worth as 5.9 billion dollars prior to the October 1987 market decline. In October his value dropped by 31% or 1.8 billion. When asked about his loss, he commented that he had not lost anything because he hadn't sold.

I believe that much of the fear that investors have is perpetuated by the news media and politicians. Here is a sensationalized headline that took off like wildfire. October 8, 2008 Congress' top budget analyst, Peter Orszag estimated that US retirement plans had lost 20% or 2 trillion dollars over the past 15 months.

There are two points to make with this news headline. You would think that the media would research a few facts. First, the math does not make sense. In 2005, the Employee Retirement Benefit Institute (ERBI) reported US retirement plan values at 14.388 trillion dollars. Mr. Orszag says in 2007, the number was 10 trillion. The market went up between 2005 and 2007. Who is right? But does it matter?!? That is my second point, it doesn't matter. That headline touting a 2 trillion dollar loss, is not a realized loss. The ERBI reports that there are more than 156 million participants in retirement plans. Most of these participants are just like Sam Walton was after the 1987 market decline. Unless all of those participants are going to sell, there is no purported 2 trillion dollar loss.

Republican appointee, Secretary of Treasury Henry Paulson has proven to be a very intelligent and resourceful financial expert. However his abrasive tact to bailing out the mortgage business has been less than desirable. After days of nationally broadcast Con-

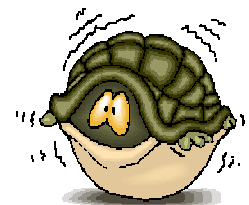
gressional testimony he left the impression that if Congress did not do a bailout that day and do it the way that he suggested the proverbial "sky would fall". The deal did not get done in the time and exact manner he suggested. And the sky did not fall! Regretfully the press picked up on this and the backlash has been Secretary Paulson's believability and effectiveness.

The next headline previously listed is from the Dallas Morning News, "Paulson: global markets remain strained". This headline could give the reader the impression that the news conference it was reporting on was more gloom and doom from Paulson. To the contrary, if you watched the news conference or read the entire article, Secretary Paulson actually was there to give an update on progress his department was making in implementing the 700 billion dollar bailout. This should be a good lesson in not forming your opinions just on the headlines.

Getting the details is something that more of us should do. Granted we've all done and said things that we wish that we had done better or wish we could



"...much of the fear that investors have is perpetuated by the news media and politicians."



The story behind the headlines (continued)

take back. Senate Majority Leader Harry Reid, D-Nev., openly discussed a potential bankruptcy in the insurance industry without telling who it was or any details. That comment sent stocks of companies like Met Life plummeting 30% within two days, Oct 3rd & 4th.

Our economic system operates on a great deal of trust. Trust appears to be a significant problem in the credit markets. And banks lending to each other is an important aspect of our economy. Its not a trust issue as in one person trusting another on-on-one. This is an issue that banks do not feel that they can rely on the stated value of another bank's assets. The lending bank's view is that there may be too many defaulted investments and the borrower will not have the assets to back up the loan. In some instances (due to so many mortgage defaults) the borrowing bank does not know the value of their assets. Some mortgages (loans) may or may not be paying or have a high potential to stop paying because of readjusted interest rates.

Until confidence is restored or at least improved we will continue to have volatility in the price of stocks and bonds. Worldwide, governments' efforts to put money directly into the financial system to back loans appears to be taking time to work. The credibility of the system has to be re-established.

Two of the other headlines previously mentioned report that "Central Banks Cut Rates Worldwide". In the United States that means that big lenders can borrow money from the Federal Reserve at a 1.5% rate (the prime rate), the lowest it has been in four years. Although banks don't have to pass on those rate cuts they usually do to stay competitive. Within a few months we should begin to see lower mortgage rates, credit card rates, auto loans and student loans. However, the availability of those loans continues to be stifled due to higher standards to qualify for lower loan rates in addition to the trust issues previously mentioned.

Even after detailing these recent headlines, we continue to ask a question that remains on everyone's mind: will the investment markets stop going down and when will we hit bottom. If you are a well diversified, long term investor, it doesn't matter. Resist buying into the media frenzy of selling everything you own. The goal is to own those companies or portfolios of companies that are the same companies that they were before the financial crisis. They are doing the same business, now they are just cheaper. If you're investment time horizon is short, lean more toward guaranteed accounts.

As I come to the end of the 2008 3rd quarter's Investment Letter, I'll

leave you with one final thought.

I began writing this letter of opinions and thoughts October 1, 2008, the day after the end of the third calendar quarter. Today is October 16, 2008. There have been three huge market swings in the past three days.

October 13th up 940 points,
October 14th down 347 points
October 15th down 758
October 16th up 401

Ten years from now will this really matter? The volatility is not over and this is not to say that this is the bottom of this cycle. Think long term. Continue to stay the course of your plan. If you don't have a well thought out investment plan, it's as good as a time as any to start.

Best regards,



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¹ References are from Wednesday, October 8, 2008 headlines

²John Donne (1572-1631). It appears in Devotions Upon Emergent Occasions, Meditation XVII

³Time Magazine, page 36, The End of Prosperity? By Harvard History Professor Niall Ferguson

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