"Q&A ON CURRENT MARKET CONDITIONS" October 31, 2008

What is the current outlook for the stock market?

First, as we have said before, it is almost impossible to predict market directions. However, this bear market could go somewhat lower before the markets reach their bottom. In the financial world, and according to Investopedia.com, this is called "***Capitulation***."

More specifically "Capitulation" is the process to finally reach a market bottom and is sometimes indicated by high volume of sharp price declines in the market. Investors who want to sell (panic) or who are forced to sell (margin calls, need to raise cash, etc.) unload stocks no matter the current price or quality of their investments.

Also explained in the October 25th issue of the Wall Street Journal, sometimes "capitulation" and market bottoming can play out through a very slow, extended decline in the markets (like a nagging drippy faucet). This is what investors experienced in the lengthier time period through 2002 and early 2003. Nevertheless, this is the painful process where the stock market is essentially getting all of the sellers out that want to leave. And though this is very scary for individual investors, it is a process that needs to happen before markets can perform better.

Who is doing all the selling?

We are currently seeing signs that the "selling pressure" has slowed, but it could resurface (periodically) during large positive days in the market. Regardless, according to recent news services such as the Wall Street Journal, *some* of the wild drops in the markets have been caused by the following groups of investors:

- panic sellers
- mutual funds having large redemption requests, and
- hedge funds that are desperate to quickly raise cash

How low will the market go, and how long will it take to recover?

No one knows exactly, but we are still hopeful for investors who stay invested for the long-term and who avoid trying to time the market. Remember, though prices drop in market declines, ***you still have your shares***. Additionally, you can even increase your share balance when you reinvest your mutual fund dividends and capital gains payments. This is some of the "math" that helps you regain "lost" ground when share prices eventually increase again.

What may happen in the market once the "panic" settles down?

Once we get out of this recent "panic" phase the markets will probably key on the economy and corporate earnings. Currently most of the prognosticators are saying we are now in a recession with the jury still out on how deep it will be. More than likely this is the case, but don't think that the U.S. economy will roll over and die. Our

Treasury and the Federal Reserve is now implementing some very bold and aggressive measures that could help bring better days. However, remember that it will take some time to begin to feel the effects of this financial "medicine" on "Main Street" America.

Why am I hearing that most people should maintain their current mutual funds instead of selling out and possibly buying back when the markets settle down and things seem better?

The reason is that "market timing" usually doesn't work. If you are lucky enough to get out at the right time you must get back in before the market regains from the price you sold at in order to reinvest with at least the same shares you originally had. And usually when people get back in is when they "feel" better about the market, which is when stock prices have already passed up the price you sold at.

Additionally, consider this recent quote by the most respected John Boggle of Vanguard Funds: "*You really have no choice but to stay the course in an intelligent way. It's one thing to get out of the market at the perfect time – how many people can do that? – and quite another to get back in at the perfect time. You've got to be right twice*."

Why do some of the news personalities and services suggest that investors reduce their stock holdings?

If you are listening to these programs try to ask yourself who is the speaker's audience? In terms of Jim Cramer, he is usually talking to an audience of individual stockholders that are "stock traders" (invest for short-term gains), not mutual fund investors. Keep in mind when you are invested in mutual funds you have a team of professionals at the fund family making day to day decisions of what to buy and sell, and when to do this – so don't need to make quick portfolio decisions. Individual stock investors, on the other hand, spend a lot of time trying to make these decisions themselves in order to manage risk in their own portfolio of stocks.

Furthermore, remember that there isn't "one" right way of investing that works for everyone, every time. Each investor has differences in risk tolerance, goals, resources and needs that must be met over varying periods of time. Therefore, it is typically best to look at each investor individually and develop a custom game-plan for that situation.

Since the market is doing so badly shouldn't I stop my monthly investments into my retirement plan (or other investment account)?

Contrary to how you may feel, now actually is a good time to be buying instead of selling – that is, buying low helps you ***accumulate more shares*** at lower prices. Remember that you are investing for a reason and try to refocus on that goal or strategy. Just because markets have cycled down at this point and prices have dropped doesn't mean that you should jump ship and bail on your plan.

Instead continue to dollar cost average, a strategy where you invest a set dollar amount at regular intervals regardless of the investment's share price. This approach helps you avoid the guessing game of when to invest by investing on a regular schedule. Your money buys more shares when the price is low and fewer share when the price is high, which can mean a lower average cost per share over time. Dollar-cost averaging doesn't guarantee a profit or eliminate risk, and it won't protect you from a loss if you sell shares when the market is declining or at a low point. Before adopting this strategy, you should consider your ability to continue investing through periods of low price levels. Consider the grid below which is not indicative of any specific mutual fund and is provided for illustration purposes only:

Dollar-Cost Averaging as the Share Price Falls		
Purchase Date	Share Price	Shares Purchased
January 1	$38	13.16
February 1	$31	16.13
March 1	$29	17.24
April 1	$32	15.63
May 1	$29	17.24
June 1	$26	19.23
	Average cost per share = $30.42	Total shares purchased = 98.63

Finally, consider a recent quote from Bill Lippman, President of Franklin Advisory Services, LLC, "*These are clearly turbulent times, but we have been there before with the savings & loan crisis of 1989, the internet bubble in 2000 and the tragedy of 9/11 in 2001. There have been plenty of similar periods, but I feel comfortable that this volatility too shall pass, and we'll look back years from now and think about the bargains that were available. Every time it feels terrible going through it, but once you're through it doesn't seem that bad. I believe that's going to be true here. We're going to look back on this, though I don't know when, and we'll have had strong performance based on the decisions we're making today*."

Can a mutual fund I'm invested in go under (lose everything)?

Yes, depending on the fund you are in, but probably unlikely. What may help your concerns here is to ask us for a prospectus, annual report, or even a Morningstar report that shows some or all of the individual holdings of the mutual fund you are concerned about. Keep in mind your mutual funds are usually well diversified across several economic sectors as their prospectus dictates, and commonly only a small portion is invested in each individual security (company).

What do my mutual fund managers do in times like these?

In talking with some of the mutual funds we use for our clients, we have been told the managers and their analysts are currently reviewing their holdings and repositioning the portfolios as they see fit to best help the shareholders going forward. For instance, they may reposition the portfolio with individual holdings that work better in a different presidential administration, in times of a recession, in view of the next economic expansion, or to take advantage of good values in the market today. Additionally, this market decline has generated a fresh list of higher dividend paying stocks that managers can use if they make sense for the portfolio.

In a recent interview Gary Motyl, Chief Investment Officer of Templeton Global Equity Group said "*I can counsel patience and fortitude, but I think we need to make sure your portfolios are poised for an eventual recovery, not for what has happened in the last few months*." In other words, your fund managers are at work investing for what they see on the horizon – being proactive instead of reactive.

What are you doing for me during this time in the market? Shouldn't I be making portfolio changes?

We are studying the economic outlook going forward, talking with the mutual funds we use for you, and talking with other advisors across the nation – all to gain further insight into what is best for all of our clients. In addition, just as you are likely doing, we are reading a lot to stay abreast of current developments. We are also continuing to research as normal, running new analysis and testing of mutual fund choices.

Furthermore, we have already talked with many of you trying to consider your own situation going forward. Keep in mind prior to this bear market we have helped you allocate and diversify your portfolio based on what you are comfortable with and what we believe will work for you long-term. Therefore most investors don't need a "fruit basket turnover" of their portfolio. Instead they are better off sticking to their investment plan and in some cases a little "tweaking" of the portfolio (only as needed or as situations change). Also, we are continuously trying to provide you with more education and information that should be helpful. This, along with the correct amount of time, should allow things to get better.

Also remember during times like these many of us learn more about who we are and what investment risks we are willing (and not willing) to take. It is important to communicate these thoughts with us as they could impact your situation going forward, especially if your have found that your risk tolerance is not what you originally thought. Remember, markets have always cycled up and down and they will continue to do this in the future.

What can I do at this point?

First you can prepare mentally. It certainly could take a while to regain lost ground and there could be more scary days between now and then. Ask yourself if you are being realistic about anticipated returns going forward and begin to adjust if you are not. Expecting double-digit returns every year, as we saw in the late 90's and also some in the middle of this decade, is not healthy and often leads to disappointment.

Second, try to turn off the things that cause anxiety or negative thinking (the TV, constant downloading of portfolio values, frequent Internet news searches, etc.). This will help you refuel and also give you more time to invest in family and other valuable relationships.

You may also benefit from taking a look at your goals. As with any goal we should review, monitor and adjust as needed. Ask yourself these questions and then go about your life… keeping in mind if you need to make any readjustments, others are also doing the same and you are not alone in this process:

- Is what I have been planning still realistic?
- What can I truly do about my goals? Are any adjustments necessary?

Last, ask yourself "*Could this be about more than the economy and stock market?*" Spend time in areas of your life that can provide more happiness and are more long-lasting – family (children and grandchildren), friends, important relationships, worship, helping others in need, exercise, etc.