Lassus Wherley ...a view from the top

Building Better Futures

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An October for the History Books!

An Unpleasant Record

This has been a **market** and a **month** that will go down in the record books as the worst single month since October, 1987. I remember the two days when the market dropped 30% in 1987 but it was like ripping the band-aid off and it was over. This October was like trying to slowly remove the band-aid and created a lot more pain in the process. Here are some of the performance numbers for indexes that we track to try to put the past month into perspective.

	October	Year to Date
DOW	-14.1%	-29.7%
S&P 500	-16.9%	-32.8%
NASDAQ	-17.7%	-35.1%
Russell 2000	-20.9%	-29.0%
Japan Nikkei	-23.8%	-44.0%
Hong Kong	-21.0%	-49.9%
China	-24.6%	-67.1%
India	-23.9%	-51.8%
Emerging Mkts	-28.0%	-54.2%
Hi Yld Bonds	-16.3%	-25.2%
Sht Trm Corp Bonds	-3.7%	- 7.3%
Int Trm Corp Bonds	-4.0%	-10.1%
Muni Bond	-1.1%	- 4.2%

(Return results taken from Morningstar Index Results from 10/31/2008)

As you can see from the October returns compared to the year to date returns, October losses were equal to almost 50% of the year-to-date losses in many financial markets.

Bad News—Good News

First let's review the bad news and then I'll cover the good news.

The US is in a recession and we have seen a dramatic reduction in consumer spending.

Europe, Asia and many emerging markets are experiencing either a recession or a significant slowing in the rate of growth of their economy.

We haven't completely fixed the problem of money not flowing between banks in the system.

We have many unknowns about what changes will occur once our new President is elected and takes office. The biggest concerns are what will happen with tax rates and government spending.

There are more negatives out there but these are the ones that are getting a lot of attention.

Here are some of the points we can classify as good news.

Much of the bad news is already factored into current market prices.

Governments around the world are doing everything they can to stabilize the banking system and kick-start the flow of money through the system to the businesses and individuals that need the cash.

LIBOR rates have continued to come down although very slowly.

Central banks have mounted a globally coordinated reduction in benchmark interest rates.

Oil prices, which until recently were seen as a major threat to global growth, have dropped well below their record highs of earlier this year.

There is always someone on the other side of every sell transaction. It's important to remember that someone can sell only when someone else is buying. So…..the other side of the trade from all those people liquidating their portfolios and mutual funds is other investors who are happy to buy. While some may be market timers or traders, many see this as a long-term buying opportunity.

Based on history, we know that rebounds in financial markets can come very quickly in bear markets. All you need to do to participate in those recoveries is to *make sure you are still invested in the markets.*

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The sun will come up tomorrow and whatever happens in the financial markets and the economy, life will go on. It is times like these that force us to refocus on our priorities in life and to remind us of what we have that we are thankful for. I am very thankful for my family and friends and for a career where I have the opportunity to make a difference. I am also very thankful that I have the privilege of working with individuals who are truly amazing people. In the midst of chaos in the markets and your concern with your personal situation, many of you have reached out to us to express your support. I can't tell you how much that has meant to all of us. Thank you for expressing your appreciation and for choosing to work with us over the years.

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Here is our latest collection of questions and answers.

Question: *Now that the market has settled—should we begin to raise more cash for the project that we are planning for next year?* **Answer:** There are circumstances where raising cash over time makes sense. Those are typically when you know you have specific needs over and above what we would normally maintain. Like the client who reminded us that she would need extra dollars toward the end of the year for the purchase of a car or the client who needs higher dollars for estimated taxes in January. Many of you have been in touch with us to let us know about your needs for cash. This is extremely helpful as we review portfolios. We can build the time-frame into our analysis and make sure we raise the cash over a period of time. We really prefer raising this cash over time rather than all at once in this type of market.

Question: *This market is really making me nervous! Can we maintain a little more cash or maybe buy some CDs to keep on the side until the volatility is less?* **Answer:** There is nothing wrong with maintaining extra cash or using CDs as a place to park some of that cash. These dollars can serve as emergency reserves that you can access should you need them. What we don't want to do is take a lot of dollars out of the equity markets while the market is still very low.

Question: *I just looked at my October statement and I'm in shock. I know everyone has been talking about how it's the worst month since October, 1987 but it just hit home. That mattress you mentioned is looking better and better. Remind me why we need to stay invested.* **Answer:** Bear markets normally have very violent and volatile moves both up and down. We have now experienced the downs but the only way to experience the up part of the cycle is to stay invested. The mattress carries its own risks. If you hide cash at home (in the mattress) you run the risk of loss by fire, flood, robbery or family. I classify family as the highest risk here since once they know where to find your money, you could be in trouble. Seriously, there aren't many alternatives that we haven't considered in this environment. We continue to review asset classes and specific funds to determine if changes make sense going forward.

Question: *If my portfolio is down 12% in October, what do I need to earn to get back to where I started at the beginning of October and when do you expect that to happen?* **Answer:** Basically you will need to earn double the return or 24% in order to get back to your original value. This is due to the fact that you are earning on a lower dollar amount due to the loss. I don't have a crystal ball but I do believe that the market is always pricing in what we believe the future will look like. If you make the assumption that we will begin to come out of this recession by next summer this market should stabilize and begin to rebuild based on the fact that many companies are still making money even if it is less than it was last year.. I can't predict when the markets will climb 24% but I do know that when we came out of the last couple of bear markets we got a lot of the losses back very quickly. The rally in 2003 was the most recent after the bear market in 2000 through 2002.

Question: *You mentioned a new hybrid fund in your last* ***View from the Top****. Have you made a decision on whether you are going to use this fund or not? If you are—how will you decide who gets to invest money in this fund?* **Answer:** We are still in discussions with the company. We will make a decision this week and will then determine how we will utilize this fund and what the allocation will be per client.

Question: *Do you think this is a good time to invest in TIPS? I keep hearing about how low the prices are now.* **Answer:** Treasury inflation-indexed or inflation-linked bonds are designed to protect the purchasing power of an investor's savings by indexing interest and principal payments to consumer prices. If prices go up, so, too, do dollar payments from an indexed bond. The Treasury started its indexed bond program in January 1997 by issuing 10-year inflation-protection bonds, with principal and interest payments linked to the consumer price index for all urban consumers (CPI-U).

These bonds give investors two different payments: Inflation Payment—every six months, the principal is adjusted by an amount equal to the CPI, payable only when the bond is old or matures. Interest Payment—bondholders or bond fund receives a check twice a year for an amount equal to the principal multiplied by the interest rate. In the unlikely case of deflation, the adjustment can go down, but never below par. For example, suppose an investor purchased a $1,000 TIPS with a 4% real rate of return coupon (payable at 2% semiannually). If inflation over the first 6 months was 1%, the bond's principal would be increased to $1,010 ($1,000 times 1.01), and the first semiannual coupon payment would be $20.20 ($1,010 times 2%).

There is one catch. The IRS taxes the inflation -adjusted increases in principal, which are not paid until the security matures, under the rules OID. This policy, as it does for zero-coupons, creates taxes on phantom income, which can be a real nuisance for taxable accounts. Like any investment, we have to weigh the positives and negatives and determine whether or not it makes sense for an individual client. These securities are very cheap right now because the inflation risk is very low. We would typically recommend these securities as a hedge against rising inflation. We continue to review whether it would make sense to add these to our allocation.

Question: *You mentioned that we need to control what we "can" control. We have committed to a construction project to add a room to our home. We could delay it but really don't want to at this point. What should we do?* **Answer:** If you have the funds set aside to pay for the project there may not be an issue. However, if you need to raise the funds and take dollars out of your current investments it may make sense to review the timing of your construction project.

Question: *My real estate fund really got clobbered. What's going on with that and should we be buying more at these current low prices?* **Answer:** Real estate funds have gone down along with everything else this year. We are in the process of analyzing the current valuations and dividends to determine the risk in this environment. Once we have done the risk assessment we will make a decision on whether to continue to just hold the current real estate investments or to begin to add to these positions.

Question: *Everyone is talking about taxes going up if Barack Obama is elected President. What do you think will happen? Should we be doing something different based on that possibility?* **Answer:** The odds are pretty good that no matter who is elected as our next President we will be paying higher taxes. The reality is we have increasing debt that has to be paid at some point and the primary source of revenue for the US Government is our tax dollars. So……..I would assume that taxes are going up. There really isn't anything we need to do until we know what type of taxes we will be dealing with. Although, our new President will certainly see and understand the issues with a slowing economy. This should cause either candidate to think long and hard about increasing taxes.

Question: *How have our bond funds performed compared to their category of bond funds?* **Answer:** Our bond funds have held up pretty well in this market. Here are a few with the returns through October.

Year to Date	Fund	Category
Harbor Bond	-1.81%	-8.34%
Vanguard Shrt	-5.55%	-5.09%
Vanguard Int Muni	-1.70%	-2.94%
Vanguard Ltd Muni	+1.50%	- .53%

The category results are taken from Morningstar.. Three out of four of our funds outperformed the category by at least 2% and some by significantly more with Harbor beating the category by the most. Vanguard Short Term Corporate Bond Fund was slightly worse than the category for the period.

Keep those questions coming in. If you are wondering about something, the odds are pretty good someone else may also be thinking about the same topic. When you ask—we get the chance to share it with others.

I hope things are boring for the next few weeks so that we all have a chance to enjoy our families and think about everything we have to be thankful for during the upcoming holiday season!

Have a wonderful Thanksgiving and please let us know if you have any questions or concerns.

Diahann