



## **Morrison Investments, Inc. (Member FINRA, SIPC)**

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### **Will Things Get Better?**

*as of October 8<sup>th</sup>, 2008 (Dow closed at 9,258)*

In Thomas Paine's *The Crisis*, he wrote, "These are the times that try men's souls". While written in 1776, the words feel very pertinent today. Fortunately, we are not struggling for our lives, but we are struggling for financial freedom which is brought about by having reasonably stable financial resources to rely upon. Right now, that stability and reliability can appear to be distant.

Originally our objective was to delay our next market update until after the presidential election, but due to the profound rapid market movements and investor contacts – which we encourage but have had a hard time keeping up with, we felt the need to provide everyone with our thoughts without delay. We are in uncharted waters when every day seems like a new stock market bottom.

This letter is a brief summary of our advice and encouragement as we know you're probably anxious and fearful in these uncertain times. Warren Buffet recently commented that he has never felt as much fear from investors as he is right now. Our message continues to resonate with that of the Wall Street Journal's Judy Shelton who stated, "The world is not ending. Despite the wrenching turmoil in global financial markets and morbid allusions to the death throes of capitalism, it ain't over. Not until people quit believing in themselves, not until people quit believing in a better future." We know your personal concerns and anxiety are real.

My family's personal money is invested right where your money is, and nothing has been pulled out of the market. I've actually added money to our funds as I personally have that much confidence in the long-term prospects of the stock market and the basic fundamentals of our country. But I must admit to being more angry and upset than I have ever felt before with what has been allowed to transpire in the mortgage and housing markets that has fed the greed of many financial organizations and ultimately brought us to the current financial crisis. From my perspective, this is one area I believe the government has fallen short in protecting the interests of everyday citizens and I believe both political parties must take some responsibility to the current problems we are struggling through.

From what I know and believe, our government allowed financial organizations (typically non-banks) to deviate from historical sound standards of requiring a reasonable percent of a home purchase to be given as a down payment and the proliferation of adjustable rate verses fixed rate mortgages with unverified income or other documents to support the loans. All of this fed our *personal appetite for increasing debt* that could not be supported. Were not home values always going to go up so we could always draw out the increased equity through home equity loans or refinancing? In effect the home was sold as the greatest way to save for the future.

Part of this past week was spent at the Financial Planning Association's largest annual gathering of Certified Financial Planners™ in Boston where market conditions were very heavy on everyone's mind. In a nutshell, I can report there wasn't any information or advice provided that would change our current advice regarding the markets. One idea I found of interest was by a Fidelity Investments economist who stated the stock market's recovery would be dependent upon the housing market's recovery where unsold home inventories are still quite high. It's interesting that

the housing market has followed the same unsustainable growth and bust pattern as the tech bubble in years 2000-2002.

We would also encourage each of you to read Jim Rothenberg's message to investors that can be found in full at [www.americanfunds.com](http://www.americanfunds.com) under the News heading in the middle of the opening page. In brief, here is part of his letter: "During my 39 years with American Funds, I have seen many turbulent markets and know how hard it is to avoid getting caught up in the here and now. This is especially true when the media bombards us hourly with news, speculation, and rumor. I also know, though, that as long-term investors we must focus on the real world underneath the noise and mesmerizing flow of data. That's why I think it's helpful to share a few thoughts about the current market. Let me begin by reflecting on some other challenging moments that are seared into my memory. I remember the collapse of the Nifty Fifty in the early 1970s, the first and second oil shocks in the 1970s, the savings and loan crisis in the late 1980s, and the tech bubble that ended in March 2000. Each of these experiences was different, but there was a common lesson in all of them. In each case, investors and our financial system survived. We will survive this moment as well." We share his views and believe in the message.

The following is a summary of additional information including several suggestions:

1. The mutual fund "Washington Mutual" is not at all related to the Washington Mutual Bank that was taken over by Chase.
2. Based upon all of the information we've reviewed, questions asked, etc., we have no reason to be concerned about the money market funds held through our firm.
3. There is a substantial difference between a brokerage firm (like Merrill Lynch, Leman Brothers, Bear Sterns, Wachovia, etc.) and the mutual funds you hold through our firm. First of all, our firm does not have custody of your money as the holdings for each mutual fund are held in a regulated and separate corporation. This regulated mutual fund's assets are held separate from the brokerage operation business. A mutual fund's only expense is the fund's management and operation expense which is paid to a third party organization/management group. A mutual fund's only assets are the security holdings purchased for the fund and there isn't any debt except for the latest unpaid management fees. Mutual funds do not have employees, borrow money, incur office rental expenses, etc. As a result, **a diversified mutual fund cannot go bankrupt!**
4. If it makes sense for you, now just might be a great time to convert part of your Traditional IRA to a Roth IRA or to exchange non-IRA money to a Roth IRA.
5. If you have money to invest, we very much encourage dollar-cost-averaging mutual fund purchases.
6. If you are currently withdrawing money from your investments, determine if you are able to forgo income for awhile or reduce your monthly income.
7. Based on our understanding of the stock market as a predictor, we believe the potential victor of the presidential campaign has already been factored into stock market prices.

As always, we never even consider that we or anyone has the ability to predict the shorter-term direction of the market or can know when is the best time to withdraw or invest in the markets; but we are in the business of helping investors manage the risk of investing in mutual funds. If there are issues about your situation you would like us to consider, do not hesitate to call or email.

***Will things get better? My response is a confident "Yes".*** We are resilient and ultimately I believe we will have a better governmental/financial structure in place going forward once we get through the current disaster. ***Thank you for your trust during these very difficult times.***

*Prepared October 8, 2008 by: Thomas A. Morrison, CPA, CFP®, Principal*