



Touching Base with Our Investors – October 2011

"It was the best of times, it was the worst of times; it was the age of wisdom, it was the age of foolishness; it was the epoch of belief, it was the epoch of incredulity; it was the season of Light, it was the season of Darkness; it was the spring of hope, it was the winter of despair; we had everything before us, we had nothing before us." Charles Dickens, *A Tale of Two Cities*

The past few months have been very difficult for investors. The ongoing daily market volatility, downgrading of long-term US government debt, the instability of the global economy, the foreign debt crises and our own US government's gridlock are unnerving. The Chairman of the American Funds recently stated in a letter to shareholders, "I've been in the investment business for more than 40 years, and I wish I could tell you that living through periods like this gets easier with practice, but it doesn't. We all know that we should stay focused on the long term, but I know how difficult that can be in tumultuous times such as these." While everyone's financial situation is different, we too feel the pain when the value of investors' portfolios experience significant valuation losses.

Worldwide events all seem negative and there is reason for caution. While these times are difficult, stepping back and trying to get a perspective on this market— versus reacting to shorter-term major volatility -- is crucial to long-term investing success. This market is not the same as what we experienced in 2008. Major US banks and US businesses are in better financial shape than they were then as most banks have gotten rid of the worst of their loans or have adjusted to today's reduced loan portfolio valuations and today corporations – through cost cutting -- are producing solid earnings even in a weak economy.

It's not news to you that your portfolio and home values are down substantially, but just as you didn't sell your home which dropped in value, you also shouldn't sell out of stock orientated funds that are worth less than what they were worth several months ago. Our goal is to provide a perspective that will encourage you to stay the course and to not make any significant changes to your portfolio. The well-known hockey player Wayne Gretzky is known for saying that he "skates to where the puck is going to be, not where it has been." We believe very much in the overall longer term direction of the stock market and our objective is to help you remain focused on that brighter future. The rise in your personal financial resources over time will provide you with greater freedom and greater control of your financial destiny.

The following is a summary of what several well-known investors are saying or doing:

- Well known investor Warren Buffett, age 81, said last week that his company will begin buying back its own stock. Previously Mr. Buffett has stated that he did not like a company buying back its own stock as there were more productive ways to put cash to work, but he made this decision as the shares are "well below intrinsic value." The article stated that at some point, investors too will realize what Warren already knows, that many quality stocks are currently selling at significantly low valuations.
- John Bogle, age 82 and founder of the Vanguard Funds, was asked if this was the worst investment environment he has seen, and his response was a definite, "Oh my goodness, no, not at all." He then summarized the big losses of 1973-74, 2000-03, and 2007-09. When he was asked if this downturn could be as great, he said, "Nobody knows and it's not given to us to know. The future is not ours to see. You try to make intelligent decisions, have an

intelligent plan that balances risk and reward, balances stocks and bonds, and ignore the noise in the market.” He goes on to say, “We’ve let the emotions – the excitement of the short term – take over our thinking about our goals. Maybe not today, but over the long run stocks are going to be the best way to get there.” We believe this is excellent advice.

- Brian Wesbury, chief economist at First Trust Advisors, watches many market indicators and states “not one of them says recession.”
- Bob Brinker of the **Marketimer** newsletter (October 4th issue) states, “The conditions are now in place to justify an upgrade of our stock market view to attractive for purchase.” An obvious conclusion is that if it is an attractive time to purchase, then it cannot be an attractive time to sell.

We personally believe this is a period when governments and individuals are caused to address their overspending and overpromising on a global scale. There has been a lot of progress over the past three years, but one investment manager stated that he thinks today we’re in the midst of a second real questioning period: “Has enough been done?” and “Has enough progress been made?” The conclusion is not enough has been done. But ultimately this is a cleansing period, a period all things go through in making a better, more durable economy and society. So while there is pain on the individual level, there is also growth towards a better tomorrow. The start and end of this process can not be predicted.

We are personally invested right along side our investors as we wholeheartedly believe in the direction we are headed. We have a lot of hope for our country and its’ future. Our encouragement is that you focus on what you can control and not on the gyrations of the stock market. We live in the greatest nation. In spite of our problems, others want to immigrate to this country as they view our freedoms and prosperity as being so much greater than what they have experienced in their own countries. “It was the best of times; it was the worst of times.”

“A ship in a safe harbor is safe, but that is not what a ship is built for.” ~William Shedd

Things to Consider

Mortgage Refinance – Mortgage rates are extremely low. I’ve personally refinanced twice over the past 12 months. If you haven’t refinanced and there is sufficient equity in your home, consider refinancing. If you need advice and direction to a trusted mortgage broker, please let us know. 15 year rates are 3.5%, 20 year rates are 4.0%.

Roth IRA Issues:

- Make your **2011 Roth contribution** – if you qualify -- sooner rather than later. Invest when markets are relatively low rather than waiting until you feel comfortable as they will be priced higher. If cash is not available and you own non-IRA assets, money can usually be moved

from the non-IRA to your Roth IRA account.

- **Roth Conversions** – With market values down and assuming you are okay with a taxable event, converting all or part of your Traditional IRA to a Roth IRA can make sense. Roth IRA earnings are 100% tax-free.

***“Learn from your mistakes. The only way to avoid mistakes is not to invest – which is the biggest mistake of all.”
Sir John Templeton***

Summary

If you would like us to review your current asset mix and make recommendations suitable to your personal views and situation, please do not hesitate to contact Karma or myself.

Thank you for your on-going trust, support and referrals!

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