

The recent market news and continued volatility has understandably caused anxiety among investors. Although this type of volatility is not without precedence, it is nonetheless unsettling when it happens. We experienced similar anxiety beginning in 2000 with the technology market crash, followed by September 11, 2001 with the largest one-day drop in the 21<sup>st</sup> century, and finally by the collapse of Worldcom and Enron in 2002. Investors suffered through three years of plunging values and teasing recovery attempts only to plunge again with the next unforeseen crisis. During that three-year period, losses ranged from 70% for those heavily invested in technology to only 12% for those with a globally well-diversified portfolio. Those diversified investors who stuck with their portfolio were rewarded in 2003 with a dramatic and swift recovery that recouped all the bad performance from the prior three years and then some.

History shows us that in the long term (1) bear markets are relatively short compared to bull markets, (2) declining markets lose less ground than what bull markets gain and (3) most market recoveries happen quickly. Of course, the questions on everyone's minds remain: ***Is it different this time? How long will this last? Should we be doing anything as new economic and financial information is reported in the press?***

Presented a different way, are the world stock markets merely "sick" or do they have a terminal disease? Your portfolio owns at least 12,000 companies diversified throughout the world. We would suggest some of them are "terminal"; that is they will never recover (as is the case with Lehman Brothers this year and Worldcom and Enron in 2002). But the majority of them are currently suffering from malaise. Stated in economic terms, almost every global equity asset class, with the exception of real estate, is showing negative returns on a year-to-date basis. We are confident though, that our dynamic and nimble capital structures will adjust, respond and improve over time. That is, health will return to our global capital markets. Now, what do we do as we move from Point A (today) to Point B (sometime in the future)?

First, for context, here are some facts:

### **The Facts**

- There have been 12 time periods since 1926 when the stock market has fallen sharper than what we are currently experiencing.
- From the recent peak to current valley, October 9, 2007 to the September 17, 2008 close, the S&P is down 26%. Please recall that in our diversified portfolios, the S&P 500 represents less than a quarter of total equity exposure.
- As of June 30, 2008 when Lehman Brothers closed at \$19.81/share, Lehman stock represented around five hundredths of one percent of most RCG all equity portfolios. Stated differently, for every \$100 that we invested for you, Lehman accounted for five cents or less.
- A typical RCG 100% equity portfolio has declined about 20% from January 1 through September 17, while a typical 70% equity and 30% fixed income portfolio has declined by 13%. Again, these declines are not unprecedented and are not unexpected, if we look back over the decades of equity tracking.
- A typical RCG 100% equity portfolio increased around 22% for the period from June 30, 2006 through June 30 2007, and the typical 70%/30% portfolio increased by 17%.
- From 2000 through 2007, the international markets significantly outperformed the US market. But in 2008, all markets are down and most are hovering at losses of 25% to 30%.
- From 2000 through 2006, Real Estate Investment Trusts were very strong performers. They were down around 18% in 2007 but have been positive or only slightly negative in 2008 so far.

## **Where Tactics Meet Strategy**

1. If you have an allocation to fixed income, your portfolio is structured to absorb market volatility. How? We have worked hard to understand your personal situation such that we can strike the appropriate balance between equities and fixed income. Your fixed income portion provides liquidity and stability for the portfolio.
2. Your portfolio is never concentrated in any one stock position, never reliant on only one domestic asset class, nor dependent solely on the performance of the US economy. We have built an efficient, low-cost basket of global stocks that represent more than 12,000 companies around the world.
3. In taxable accounts, we are actively harvesting tax losses in your portfolio and banking them to offset against capital gains in the future. That tactic does not make a positive out of a difficult situation, but using and banking tax losses against future gains is a prudent financial move.
4. We are active in rebalancing your portfolio. The process of rebalancing is a discipline designed to buy low. If you have an allocation to fixed income or are making regular deposits, we are buying additional equities as the market declines. Equities are cheaper today (in some cases significantly) than they were a year ago. Academic research has consistently demonstrated that rebalancing is beneficial because it forces a strategy of continuing to buy low and sell high.
5. The fixed income portion of your portfolio is very healthy. You have extremely limited exposure to subprime debt and minimal exposure to interest rate volatility.

## **Perspective**

Again, there is no question that volatility is very unsettling. While we don't know how long the current volatility and down market will last, when questions arise as to whether this "is different", we answer that the reasons behind the volatility may be different, but the fact that we are experiencing volatility or a down market is nothing new. In fact, it is part of why markets ultimately have rewarded us in the long term. In that light, the following can help us frame our perspective:

**History demonstrates that the world economy will improve.** Referring to our earlier analogy, the economy is not suffering from a terminal disease, but it could take some time to regain health. We are confident that the markets will reward us for patience.

**Owning equities over the long-term is one of the most reliable ways to stay ahead of inflation.** You could invest in US Treasuries or CDs and think that your principal was safe. But the deleterious effect of inflation would eat away at the spending value of your dollar. You would find it impossible to save enough money to retire on. Once retired for a decade, you would find it necessary to reduce your standard of living because your dollar wouldn't buy as much as it used to.

**Diversification works.** Although it may not feel like diversification has helped much recently, in actuality it has. By design, your portfolio is not invested in one or even ten single stocks, (which could potentially lose all of its value), nor is it in one sector. But rather, it is invested in all sectors in varying proportions, and includes international holdings. It is thus diversified away from extreme risks. **Investors do well if they stay disciplined and focused on the long term.** Let the fundamentals of successful investing be your guide.

**Do not try to time the market.** Both the method (the continuous trading of securities for short-term gains) and the goal (beating the market) add risk and expense while delivering a lower overall return when compared to investment strategies that neither actively trade nor seek returns greater than the market. Statistics show that it is unproductive when you have to be “right” twice--that is, knowing when to get out, and also when to get back in.

## **WWWD?**

Warren Buffet is arguably the most successful investor of all time. What is he doing in the present market turmoil? He is buying companies (stocks) on sale. He is scooping up stocks at prices not seen in several years, confident that once the current crisis subsides, he will have added to his portfolio at very attractive prices.

But you may say, *I am not Warren Buffet and I need to be very careful with my portfolio because I rely on it for my financial security. I can't take that kind of risk; I need to be safe with my money.* Fears creep into our daily conscious and subconscious bombarding us with “investment pornography” and we feel like fools for even being in the market. As emotionally difficult as bad markets are, being safe translates into discipline and sticking with your long-term plan. That includes rebalancing and investing in the market.

## **Conclusion**

This is when it is the most valuable to have a financial advisor, especially a fee-only fiduciary advisor like RCG. We will help you stick with your long-term financial plan and avoid costly (perhaps even devastating) short-term mistakes. **Our highest goal is to foster your financial peace of mind.** Even though times like this test that goal, we hope to consistently, constantly and patiently work every day toward that end. Always feel free to call with questions or concerns. That is what we are here for. If you'd like to discuss your situation in more detail, please call, e-mail or stop in to see us.

©2008 Resource Consulting Group

Returns reported are gross of management fees. Past performance does not guarantee future results.

*We are the largest fee-only financial planning  
and investment management firm in Florida.*



Resource Consulting Group  
PO Box 4930  
301 E Pine Street, Suite 300  
Orlando FL 32802  
Phone: 407/422-0252  
Fax: 407/649-8795

Website: [www.resourceconsulting.com](http://www.resourceconsulting.com)