

January 9, 2009

Diversification still works! Although virtually every stock went down during 2008 (just 1 out of every 19 stocks in the S&P 500 was up), most high-quality bonds held up relatively well. Fortunately, stocks in general have rebounded significantly from the low reached on 11/20/08 (the S&P 500 gained 24.3% from 11/20/08 to 1/2/09). Hopefully, the low was hit on 11/20/08, and the market will gradually build on recent gains.

There is a lot of good news (e.g., mortgage rates falling) that could come over the next few months, but unfortunately, there is some bad news as well. We think there is a good possibility the downturn in stock prices already reflects the bad news, since many people who pulled out of the market last quarter did so based on fears of worse things to come.

Bob Turner, Chief Investment Office with Turner Investment Partners (many of our clients own a position in his fund), wrote the following in his most recent year-end letter to clients: “The good news is that bear markets such as this one, which shoved stocks to an 11-year low in November, historically have been followed by bull markets.” Earlier in that same letter, he said, “Normally, if investors were presented with the proposition to buy stocks that offer a likely downside risk of 5-10% and an upside return potential of 30-50% (which we assess as the market’s risk/reward profile currently), they would jump at the chance.” With stocks at historic lows, he has a much better chance of being right—and we hope he is!

Most of you have heard the recent bad news from Wall Street concerning Bernard Madoff. He was arrested and charged with securities fraud for allegedly collecting money to invest from clients, making up false statements to show they were doing well, and using new clients’ money to pay interest and withdrawals to existing clients. This is known as a Ponzi scheme and, in this case, is estimated to involve a loss of more than \$50 billion for his investors. One of the ways we prevent this from ever occurring with our clients is to never accept checks made out to PlanFIRST for new investments. Also, by using Schwab Institutional as an independent, third-party custodian, our clients can always verify the account balances shown on the quarterly reports we send them with the statements they receive directly from Schwab.

Best regards,



Mike Miller, CFP®