

FINANCIAL NEWS HEADLINES

This past weekend marked an important step in the continuing credit crisis, with Lehman Brothers, a 150+ year old firm, declaring bankruptcy and workout under Chapter 11. With listed debts of \$613 billion, Lehman is the largest bankruptcy filing in U.S. history. The headlines today listing Lehman, Merrill Lynch's sale to Bank of America, and problems at American International Group will alarm many people. Since August of 2007, our financial system has been challenged by a severe and yet very foreseeable credit contraction. The excesses of the recent real estate bubble were transformed into ever more complex derivative products that were allowed to fester and grow, outside the Federal securities surveillance approval process, to obscene proportions. In first aid terms, the blister grew, got infected and popped. What's happening now is not pretty- but it is a necessary step back to health. Bad investment risks are being squeezed from the system as capital to loan leverage ratios for investment banks have been forced down from nose bleed heights of recent years. The world stock markets have continued their roller coaster ride as a result.

There are good reasons to remain optimistic about the longer term outlook for our economy and the stock market.

- Our leaders in Washington, lead by Treasury Secretary Henry Paulson and Federal Reserve Chief Ben Bernanke, have done a great job in an extremely difficult environment. Paulson is particularly well trained to deal with this crisis, having served on Wall Street for many years before switching to Treasury. They have been creative in targeting necessary triage to maintain an orderly market.
- This process is necessary, and though painful, over the fullness of time, it will be revealed as a healthy cleansing of bad assets.
- As investors we participate in the future of the global business economy. As Ownership of equity shares has long been a well proven long-term way to build net worth and current events do not change this.

History has shown that over ANY given 10 year period diversified portfolios have performed well. However, during those 10 year periods there have always been short periods of pain. We are in one of those periods now. Given time and patience, we believe that markets will rebound and continue to reward our long term focus and disciplined asset allocation.

Why do we feel this way?

The corruption (and sleaze) is being squeezed out of the financial sector, which as a big component of the total stock market, has been a prime factor in the uneasiness over the past year.

- The US Government is –at last- showing a nice touch in it's good cop/bad cop act between "bailing out" troubled agencies ("Freddie Mac; Fannie Mae") versus forcing them to take their medicine as punishment for egregious greed and bad management ("Lehman Bros, Merrill Lynch"). Stupidity and greed will no longer always be rewarded.
- Valuation of the non-financial sector of the stock market are getting down to historically reasonable price/earnings ("P/E") levels of around 15.
- The cries of the crowd braying that the end is nigh, the world is coming to an end and civilization as we have know it is doomed is reaching a deafening crescendo. That's always a great sign that the market is about to turn up and this is a great time to buy low.
- Oil is slipping back to a market price of around \$100 and could go lower, thus taking pain off the US driver. Not too low to de-rail emerging alternative energy research and development program but low enough to ease the pain of a 20 gallon fill-up!

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