December 2008

Reflections on the Current Market

I spent a good part of the Thanksgiving weekend reviewing the markets and thinking about our portfolios and each of you. (As usual, I think, Sabrina would say). Clearly the economy is slowing - this week it was announced we officially have been in a recession since January. After a very difficult October the S & P and most other indices declined 6-8% in November.

The future direction of the markets is of course unknown in the short run. Many investors have apparently decided that the direction is down at least in the near term and have cashed out. We do not have many investors that have gone to cash. When I talk to other advisors, I find that in general their clients have also stayed the course.

Steps the Office is taking now:

We are generally staying the course with the investments. For clients that need to raise some cash or wish to add a short position to become more market neutral we are inclined to wait until the Dow breaks above about 9,000. We think maintaining overall allocation remains important and so does having investments in each asset class. We are buying selectively on down days feeling that parts of the market are very cheap (but also recognizing that they may get cheaper still).

We are currently taking tax losses in taxable portfolios. This should allow most investors to take a $3,000 capital loss this year and to have a tax loss carry-forward that could potentially eliminate capital gains taxes for the next few years. Our strategy is generally to take as much as we can in losses, while maintaining the proper asset allocation at the same time. Generally, we are selling mutual funds and replacing them with index funds or ETFs in the same category.

What should you be doing now?

Investors who are still working should generally continue to invest in their retirement plan accounts with the idea that you are buying now at lower prices. If you believe there is a chance of being laid off in the near future, please call us so we can discuss how to balance saving for liquidity versus building retirement savings.

Retirees should be seeking to minimize current expenses and withdrawals to allow their accounts to rebound before withdrawing funds. For necessary withdrawals, we will seek to take the funds from investments that have held up the best in this market so we are not selling low. If possible, this is a time to defer spending on major items, such as cars.

Investors with significant debt The efforts of the Fed are starting to drive down mortgage rates. 30 year mortgages have recently dropped from over 6% to 5.5%. These are the lowest rates in the last 5 years. If you have an ARM where the rates will be going up or if your fixed rate mortgage has a high rate, this is a good time to lock in a lower fixed rate. Feel free to call us with your specific situation and we will be happy to advise you.

Year End Changes in our office

One of the key objectives every January has been to provide clients with a comprehensive package of information about their accounts at year end. This package included information on your asset allocation, fees paid and portfolio performance for the year.

In recent years Raymond James has significantly added to the information on the monthly statements. As a result, most of the information that my office was sending has become redundant since you are already getting it from Raymond James (either in the 1099 package in the case of fees or on the statement in terms of performance). Thus, the only piece still missing is the year-end allocation report which combines all of your accounts into one portfolio and shows the overall mix.

This year the allocation model or any other report will only be sent to clients that request it. We provide these at all of our client meetings and our sense was that although we sent them out we were not sure clients were really looking at them. If you would like us to e-mail or mail your asset allocation report or performance report in January, please contact Kim at kim.larrow@raymondjames.com and we will happily send it out.

Staff Changes

In January Jake Carlin will be going back to school full time to complete his bachelor's degree at U of M. We are very pleased for him that he is going to take this step to move forward with his career.

Cost Saving Efforts

The markets are having a significant impact on all of us and my business is no exception. Fewer assets mean lower fee income. Our choices come down at a certain point to either increasing our fees or lowering our costs of doing business. I am focusing on reducing expenses and do not plan to increase fees. With Jake leaving we will not be replacing him in an effort to lower our costs. Diane will be assisting Kim in handling client services. A couple of the things that clients can do to help us give better service include:

- Returning calls and e-mails so we don't have to reach out to you multiple times
- Planning ahead so cash needs are not emergencies, getting cash ahead of time is much easier
- Using ACH to deposit and transfer funds out. This saves time on both ends of the transaction
- Sending information ahead of your financial planning meeting so we can best prepare to have a relevant conversation when you come in

We are also doing a few small things that are perhaps not as significant from a cost standpoint but are also focused on being ecologically sound.

Paper - We are also seeking to reduce the amount of paper we produce in the office. Not sending out all the year end reports will help in this regard. We also are preparing digital files of our reporting package for meetings. If you want a print out we can print it for you when you are here or e-mail it to you after the meeting. That way you have all the same information but paper is only used for the specific document you want printed. Not printing the documents saves paper, toner and electricity! We are also continuing with a process of trying to have all of our files be stored digitally rather than on paper.

Water- Historically we have provided bottled water for client meetings. We have recently added a filter system to our tap water and the water now comes out very clean tasting and I suspect purer than most bottled brands. To reduce cost and the waste of using plastic bottles, we will have our filtered tap water be the standard of what we offer. We will still have bottled water available if you have a strong preference for it.