

FROM THE DESK OF FIDUCIARY CONSULTING GROUP

January 4, 2008

Dear Clients, Friends and Associates:

If you think we are having a difficult stock market now, think back about five years to the fall of 2002. Here are the returns of the S&P 500 for the third quarter 2002:

SUMMARY STATISTICS

Jul 2002 - Sep 2002

Monthly

DFA US

S&P 500

Annualized Return	-53.19
Total Return	-17.28
Growth Of \$1	0.83
Monthly Standard Deviation	5.95
Monthly Average Return	-6.01

As you can see, stocks were down over 17% for that quarter and a dollar invested at the beginning of the quarter would have been worth eighty three cents at the end of it. Here is what I wrote in my October 2, 2002 newsletter:

“The fundamentals of investing have not changed.

The capital markets work. Long term investors exposed to equities can expect to be rewarded with return in excess of the risk-free rate commensurate to the equity risk to which they are exposed.

If you want a CD rate as your worst-case outcome, you must also accept it as your best.

[Successful long term] [i]nvesting requires diversification and discipline. Long-term equity expected returns cannot be captured if an investor panics in a negative market cycle.

Market timing does not work.

What we experienced in the third quarter is nothing new. We saw a worse quarter in 1987 and as bad of a two-year stretch during the years of 1973 and 1974. We will see bad markets again in the future.

Yet, over every rolling twenty year period going back over fifty years the return from the market has been greater than that than could have been had by simply investing in 6-month treasury bills. Including periods containing the two severe examples mentioned above.

Please remember these fundamentals as you review your statements and quarterly review this month. One of the first things I do as I sit down with someone [new] to discuss investing is to show them the period between 1973 and 1974, when the market return was nearly a negative 50%. This I say, “is a worst case scenario, but could certainly happen again.” The decision about the percentage of equity in a portfolio must be made in light of a worst-case scenario and whether it is appropriate and bearable for an investor to see the value of his or her portfolio decrease by fifty percent over any relatively short time period. For a thirty year old with many years of earnings ahead, a total equity portfolio might be appropriate and bearable. Yet, for a sixty year old, depending on the other assets in his or her estate, only a fifty or sixty percent equity exposure might be appropriate (a fifty percent equity portfolio/fifty percent intermediate bond portfolio is down less than ten percent this year versus a nearly negative thirty percent for the S&P 500 index). I don’t believe anyone reading this letter has an inappropriate equity exposure, and even if there is some discomfort with the current market conditions I don’t think anyone reading this letter should be overly concerned.

One of the most important roles that I can fill for my clients is to help them through the discomfort of a bad market. Please, if I have not talked with you and you are concerned, call me. We will go back to day one and discuss your original plan. We will talk about the history of the markets and the similarities between today and other bad markets that are a distant memory. And, most of all, we will discuss how just as “things were not different” during the market bubble that formed and nearly destroyed the NASDAQ, neither are they different for this bear market from which we will have a recovery.

As always and as suggested above, please give me a call to discuss the ideas in this letter or anything else about which you have questions or concerns. Here’s to a better fourth quarter!”

Now fast forward. The total return for the next five year period was over a hundred percent and the average annual return was over fifteen percent.

Point is, those who gave up and lost their investment discipline after several months of bad returns missed the next five years, and thus likely had an unsuccessful investment experience.

The market we are experiencing today is short term noise for those of us committed to a long-term disciplined investment approach. For those who remain disciplined, the expectation is long-term success. Those who lose patience are much more likely to have an unsuccessful investment experience.

Happy New Year to all and here’s to a successful new year! And, as always, if you have any questions or concerns please call the office or stop by any time.

Sincerely,

Thomas C. Tyler, Jr., President
Fiduciary Consulting Group, Inc.