



## Confidence

AS A COMPANY, SignatureFD strives to assist you in enabling your family to live – confidently, fully, and purposefully. The current financial crisis is a crisis of confidence. Confidence allows us the ability to overcome fear and stay in motion. Confidence is the ability to transform these fears into focused thinking and action.

Humans are fundamentally pack animals. We like to move together and to think the same way, even if those thoughts are dysfunctional. Fear and greed currently own the day. Every day, stock prices are determined by sellers – who either need to raise money or are convinced their stocks are going down; and buyers – who believe that they are getting bargains on investments that will increase in value. In periods of turmoil, there are far more sellers than buyers. People fear that their investments are going to fall forever and sell (often at the worst possible times). When markets are going up, people think that they have all the answers and end up buying at the worst possible times. No one is ever completely rational, but successful investors tend to be less scared and less greedy than unsuccessful ones.

There is no doubt we are in uncharted territory. As we monitor this fast and furious decline, it is apparent to us that the people selling at these levels are doing so for one of two reasons: 1) they have no choice, or 2) they believe that we are proceeding down the path of the Great Depression.

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The opposite side of irrational exuberance is irrational pessimism, and neither one is a good path to your financial goals. Risk management ultimately rests on wringing the emotion out of financial decision making. It is about creating a plan and sticking with it.

The first reason should not apply to our clients, as they are positioned appropriately so that there should be no need to sell in this environment. For clients in the withdrawal phase (living off their portfolio), we typically have five to ten years' worth of cash flow allocated to fixed income and cash which is available to ride out any market downturns. For clients in accumulation mode (saving for the future), any cash flow that will be needed in the next five years typically would not have been invested in equities in the first place.

We do not believe we are headed down the same path as the Great Depression. "This time is different" – haven't we heard that before? That was the rationale behind the tech boom of the 90's before the plunge in 2000 and 2001. Now investors have convinced themselves that this time is different in a negative way – that the credit

crisis will push economies worldwide into the deepest recession since the Depression. We cannot ignore history. Since the Depression, governments have become far more aggressive and proactive about intervening when credit markets seize up or economies struggle. And those interventions have generally succeeded. The recessions since World War II, while hardly easy, have been far less painful than the Depression. We also benefit from institutions such as the FDIC and automatic stabilizers such as unemployment insurance that were introduced due to the Depression.

A quick summary of the government initiatives for the current crisis thus far include: a) direct stimulus, with \$100 billion in taxpayer rebates and \$50 billion in business tax incentives; b) \$300 billion FHA mortgage refinancing

plan, in addition to the Government Sponsored Entities (GSE) conservatorship, both directed toward stabilizing the housing market; c) \$700 billion Troubled Asset Relief Program (TARP) targeting the ailing banking sector. This is part of a broader Emergency Economic Stabilization Act (EESA) which also includes increases in FDIC deposit insurance limits (from \$100,000 to \$250,000) and blanket money market mutual fund protection on all money market balances as of September 19th.

So, you are probably wondering why the markets haven't responded favorably yet? Government action typically does not work immediately, and banking crises around the world often require multiple interventions. The various government measures are significant and they will have an impact eventually.

The opposite side of irrational exuberance is irrational pessimism, and neither one is a good path to your financial goals. Risk management ultimately rests on wringing the emotion out of financial decision making. It is about creating a plan and sticking with it. It's also about getting clients to recognize that their instincts and habitual views of what to do under various market conditions are often 180 degrees from what is in their best interest. A good financial advisor understands this and makes it clear from the beginning that a critical part of his or her role is to manage risk. Often that means protecting clients from their own emotions and habits. In good times it is protecting them from greed; in bad times it is protecting them from their fears; all of the time it is protecting them from any unrealistic expectations they may have.

We work with our clients on all aspects of risk and financial security. We are here to help you understand and cope with the downsides in life including, unexpected losses, emotional



decision making, inadequate planning, too aggressive or too conservative a stance in investment decisions, allowing fear and greed to dominate, lack of discipline, failure to rebalance a portfolio, allowing market conditions to dictate risk tolerance, and maintaining the status quo because it is comfortable rather than diversifying. We are here to help you understand and protect you from the downsides, and assist you with embracing the appropriate risks to preserve your vision of the future.

To the extent possible, please let us do the worrying. Clients are people who put themselves under our protection. Our mission is to take care of our clients and we take that mission very seriously. Please continue to let us know how we can help you. Thank you for all the confidence that you have shown in us. [FD](#)



## MARKET SENSE

AS WE REVIEW THE EVENTS OF THE PAST QUARTER, during which devastating hurricanes were upstaged by the falling equity markets and seizing credit markets, we would like to begin by revisiting how we got into this mess. Although rising energy and commodity prices, excess leverage and geopolitical concerns played a role, in many ways, the housing meltdown is at the root of the issues we have been facing. A recent editorial in the *Wall Street Journal* echoed our thoughts by saying, “We are in a vicious cycle: falling housing values cause losses on securities, which reduce bank capital, thereby tightening lending and causing house prices to fall further.” This cycle has produced historic consequences such as contributing to the demise of several financial institutions including Fannie Mae, Wachovia, and Lehman Brothers. The stock market’s precipitous decline during the “bailout” talks confirmed Mark Twain’s belief that “Nobody’s life, liberty or properties are safe while the legislature is in session.”

## ECONOMIC OVERVIEW

- The economy is most likely in a recession now, as economic growth has continued to deteriorate. Unemployment of over 6% is steadily rising and payroll numbers have declined every month this year.
- Oil's \$45 fall to just over \$100 per barrel was a "rare bright spot" during the third quarter. The most recent CPI figures have yet to be updated to reflect the decline in oil prices but inflation concerns are already taking a backseat to concerns about liquidity and economic weakness. We are increasingly hearing calls for central banks around the world to lower interest rates. However, it is unclear if lowering rates will increase liquidity, as financial institutions appear to be not merely unable, but also unwilling to lend, and lower rates may not increase that willingness.
- The Federal Reserve transformed its role from the lender of last resort to the "investor of last resort," observed the *NY Times*. Since last summer, the Fed assumed \$29 billion in securities from Bear Stearns, increased its balance sheet by \$300 billion and loaned an estimated tens of billions to Lehman Brothers and other investment banks.
- Although the turmoil in the US dominates our headlines, especially in an election year, it is worth noting that the rest of the world has not decoupled from the US economy. The Euro zone is facing 7.5% unemployment, foreign governments are insuring bank deposits and taking over banks and, and the European Commission expects the UK, Germany and Spain will be in a recession by year-end.
- Liquidity's evaporation in the credit markets has received less attention than we believe it deserves. For example, GE was unable to

maintain normal operations and risked a downgrade prior to raising \$3 billion on pricey terms from Warren Buffett and an additional \$12 billion of common stock. This may reflect some issues at GE, but it is also a reflection on the state of the credit markets. According to a recent survey by Greenwich Associates, over 60% of companies say their ability to issue long-term bonds is down and 77% of companies report that pricing on long-term bond issues has increased. We are hopeful that the bailout will increase the ability and the willingness to lend funds to deserving corporations.

- On "main street," the lack of the liquidity is hitting the consumer as home equity credit lines are being cancelled and jumbo mortgage loans which are typically for purchases above \$417,000, recently were observed at 7.5%, or more than 1.5% higher than traditional mortgage loans.

## MARKET RECAP

- It's been said the markets dislike uncertainty. The markets had plenty to dislike the past few months. Fear and volatility characterized the equity and fixed income markets during the last several weeks of the quarter as investors digested news of several failures and near failures of financial institutions, political uncertainty in the US, and the Troubled Asset Relief Plan (aka TARP, or bailout/rescue package).
- The equity market declines were widespread with much dispersion. Heading into September, the US markets were essentially flat for the quarter. During September, most equity indices fell sharply and the average mutual fund with US stocks finished down over 10% for the quarter according to Lipper and the *Wall Street Journal*. The decline in the US markets, while drastic, still placed the country in the top quartile of performance for countries worldwide (21st of 84 countries). While the US S&P equity index was

off by double digits, the developed international markets fell nearly twice as much while emerging markets tumbled more than threefold. As of quarter-end, the S&P was off 25% since its peak on October 9, 2007. Much of the international declines result from a surging dollar, which had one of its strongest quarters on record.

- There was a massive flight to quality and panic in the cash and fixed income markets. Treasuries had a negative yield at times, which means that investors were willing to accept negative interest from the US government in exchange for investing their dollars. The Federal Reserve took the dramatic step of insuring money market accounts as one money market fund “broke the buck” (i.e., the value of its assets were marked down to 97 cents from a dollar).
- The housing market is showing signs of recovery and reasons for optimism. Housing starts have plummeted for several years running and inventories are down 29% since 2006. Perhaps more importantly, it is now 10-15% cheaper to own rather than rent according to experts featured in a *Wall Street Journal* editorial in late September. If the bailout is successful in restoring access to credit and home buyers feel comfortable that prices have stabilized, the bailout may not be a \$700,000,000,000 black hole for the US taxpayers.

#### LOOKING AHEAD

- The economy and the markets have been scary and frustrating for many, and it is a challenge to remain rational and unemotional at times like these. However, at the risk of oversimplification, the times we are experiencing and our thoughts can be summarized by a quote from Winston Churchill in which he said, “If you are going through hell, keep going.” The outlook over the next few quarters is worrisome. The deleveraging effects will provide a substantial headwind for GDP growth for the next few years and unemployment figures are almost certain to rise. That said, we aren’t convinced that GDP is going into a tailspin and the equity markets will keep falling. We believe the more likely scenario now is for a stagnant economy that drifts in and out of mild recession for a few years, and history suggests a market rally is possible. This will be impacted most directly by the longer-term effects of credit contraction and a deleveraging financial system.
- Historically, the market can move higher even while the economy struggles. For example, according to JP Morgan, of the 10 recessions since 1900, the average market performance has actually been positive by just over 1% during recessions and the returns six months after the recessions have averaged 11%.
- Long-term market returns include sharp corrections, roaring bull markets and everything in-between. Withdrawing capital in the midst of a market correction can lead to significant underperformance from which portfolios cannot recover. In the last 30 calendar years (1978-2007), the S&P 500 has experienced 4 different bear markets (i.e., a decline in the index's value of at least 20%). The 4 bears had drops of 26%, 33%, 20% and 49%. In spite of the tumbles, the S&P 500 has been up +13.0% per year (total return) over the entire 30-year period.
- In ongoing and continual discussions with managers we continue to hear about the mispricing of assets across the market. One manager recently stated that other than the days immediately following the 1987 crash he hasn’t seen asset values this attractive in his 30-year career. Others continue to add to securities they believe are trading at 50, 40, or even 30 cents on the dollar.



We continue to monitor client accounts and look for opportunities to rebalance, tax loss harvest, and make tactical adjustments to add value over the long-term.

- We are working hard to protect capital yet position your portfolios for a rebound. Although the markets are creating anxiety and panic, we believe the current positioning of our portfolios is appropriate. Beginning last year, we started generally migrating our portfolios towards US stocks and away from many assets we believed were riskier such as international debt and equities. We consistently revisit our strategies and their fit in the current environment and analyze your portfolios to make sure they are allocated appropriately. Despite the challenging times, we remain confident that your portfolios reflect prudent use of your assets over the long-term, which is our joint focus.

It is clear that the recent credit market and economic events have gone further than many analysts expected a year ago. That said, we believe it is important to realize the equity markets are acting in a manner consistent with previous bear markets and economic downturns. We understand and are sympathetic that even a temporary loss of capital can be stressful and add uncertainty to client financial decision making. We continue to monitor client accounts and look for opportunities to rebalance, tax loss harvest, and make tactical adjustments to add value over the long-term. We welcome your questions and concerns at this challenging time and thank you again for your continued confidence and trust in SignatureFD.

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S&P 500	-8.4%	-22.0%
Dow Jones Industrials	-3.7%	-19.9%
Russell 2000 (U.S. Small Company)	-1.1%	-14.5%
MSCI EAFE (International)	-20.6%	-30.5%
Dow Jones - AIG Commodity Index	-27.7%	-3.7%
Lehman U.S. Aggregate (Taxable Bond)	-0.5%	3.7%
Lehman 5 Year Muni (Tax-Free Bonds)	0.7%	3.7%



## SPOTLIGHT

### Bryan Strike

Senior Financial Designer

Bryan Strike joined SignatureFD in July 2008 as a part of our Financial Planning team. Bryan graduated from Georgia State University with a Bachelor's of Business Administration in Accounting, a Master's of Taxation, and a Master's of Science in Personal Financial Planning. He is a CPA, PFS, CFP®, and is currently a level 3 CFA candidate.

Prior to joining the SignatureFD team, Bryan worked for PricewaterhouseCoopers (PwC) in Atlanta under their Personal Financial Services group. He is a frequent speaker on issues related to financial and investment planning.

Bryan lives with his wife, Katie, and their two cats, Merlin and Mr. Bubbles, in Smyrna. They are active at their church, helping to run financial literacy programs for the congregation. Bryan is an active member of the AICPA and FPA.

**WHEN I'M NOT WORKING:** I enjoy reading (for fun and education), watching movies, playing tennis, working on cars, and watching hockey.

**FAVORITE MOVIE:** *Trading Places*

**FIRST CAR:** 1969 Triumph TR6

**FAVORITE BOOK:** Tom Clancy's *Rainbow Six*

**FIRST JOB:** The K-Roger (Kroger)

**FAVORITE QUOTE:** "Be civil to all; sociable to many; familiar with few; friend to one; enemy to none."  
—Benjamin Franklin

## SignatureFD Brief

- Congratulations to both **HARLAN GRAISER** and **MICHAEL MURRAY** for recently passing the Certified Financial Planner™ exam. *Way to go!*
- **ERIN AND STACY HYNEK** welcomed a baby girl, Lucy Rae Hynek, on August 12, 2008. Lucy was born at 4:31, and was 8 pounds and 6 ounces. *Congratulations to the Hynek family!*
- SignatureFD will be moving to our new home on October 24th. We will still be located in the Bank of America building, but relocating to the 27th floor. We look forward to inviting you to visit us in our new home.



Source: Economist, 1987

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