

Spectrum Investor® 2nd Quarter 2008 Investment Review

Hurt by a record setting run of crude oil and renewed concerns about the health of the banking sector, Wall Street ended a dismal second quarter with blue chip stocks flirting with its first bear market, a drop of 20% or more, in almost six years. After a 10.2% drop in the month of June the DOW is now at 11,350 or 19.9% below its October 2007 all time high (*USA Today*, 7/1/08).

As of July 1, 2008 the price of a barrel of oil is 98% higher than one year ago (*Economist* 7/5/08). According to Stephen Leeb, author of *The Oil Factor*, historically when the price of a barrel of oil increases more than 80% in a one year period, it is generally prudent to fall back closer to a 50-55% allocation in stocks and a 50-45% allocation in bonds. The 77% collapse in the price of General Motors stock to a 54-year low is another sign of how bad the high price of gas has hit consumer spending (*USA Today*, 7/3/08).

Members of our Christiansen Investments team and I, along with our good friend and long-time customer Gary Vanden Heuvel, once again attended the Berkshire Hathaway shareholder meeting in Omaha, Nebraska on May 3, 2008. This year's meeting was attended by 31,000 people, with over 600 from foreign countries. **Warren Buffett** (77) and his partner **Charlie Munger** (84) answered questions from the audience for five hours, where I found myself unable to take notes fast enough. As some shareholders describe it, it was like getting an MBA in a day. The following were a few of the questions that Warren Buffett and Charlie Munger answered:

Mr. Buffett, do you believe speculators are driving the price of oil up to an all time high?

WB: *Rather than speculators driving up the price of oil, free markets are at work.*

Speculators don't set the trend and the price of oil, they follow the trend. It's simply Economics 101, the law of supply and demand, especially with the increased demand from China and India. Inventories of oil have become increasingly tighter with today's worldwide oil production at 86.5 million barrels per day, while the world is consuming 86.4 million barrels of oil a day.

Mr. Buffett, what are your thoughts on the value of the dollar?

WB: *As long as our nation runs a substantial trade deficit, where we buy more products than we sell and spend more money than we earn, the dollar will go through temporary cycles of strengthening and weakening but the long-term trend for the dollar appears to be down for the next 10 years. With oil priced in dollars, a weaker dollar forces the price of oil to stay higher.*

Mr. Buffett, did the Federal Reserve and JP Morgan do the right thing in bailing out Bear Stearns on March 15-17, 2008?

WB: *The Federal Reserve did the right thing because without a weekend bail out, 14 ½ trillion of derivatives would have been forced to undo their contracts worldwide, which would have caused tremendous stress in the markets overnight. Ben Bernanke and the Federal Reserve, with their quick response, did a great job of calming the markets.*

Historically, "financial crises that involve banks take several years to fully unwind" (*Historical Perspectives*, 4/21/08).

Mr. Buffett, if I am running a business and want to hire managers, what should I look for?

WB: *Hire passionate people who are good communicators with a positive mental attitude. People that love what they do. You won't have to set nearly as many goals for passionate employees. They just do it.*

Mr. Buffett, I don't look at myself as a strong communicator, what can I do to be better?

WB: *At one time I was terrified of public speaking. To offset that, I enrolled in a Dale Carnegie Public Speaking Course to force myself to be in the situation to speak in front of people. The ability to communicate is under taught in our nation's school systems.*

Mr. Munger, should I invest in hedge funds?

CM: *For the average investor, no. Based on my experience, for every four times I was right on a hedge fund, the one time I was wrong I would lose and I would lose big, which would undo my previous gains. Rather than invest in a hedge fund, simply invest in **brand name stocks** with a **durable, competitive advantage** that have pricing power with the ability to raise prices, especially during periods of inflation.*

Spectrum Investor® Update 6/30/08

Category Average	2 nd Qtr	1 Year	3 Year
Intermediate-Term Bond	-1.14%	3.38%	2.57%
Moderate Allocation	-0.96%	-6.54%	4.52%
Large Cap Value	-4.04%	-17.88%	3.05%
Large Cap Blend	-1.60%	-12.27%	4.55%
Large Cap Growth	1.47%	-6.02%	5.88%
Mid Cap Value	-0.34%	-16.84%	3.92%
Mid Cap Blend	1.96%	-13.23%	5.42%
Mid Cap Growth	4.31%	-6.53%	7.85%
Small Cap Value	-1.75%	-19.82%	1.74%
Small Cap Blend	0.91%	-17.03%	3.66%
Small Cap Growth	3.19%	-13.94%	4.10%
Real Estate	-6.93%	-17.34%	4.05%
Natural Resources	19.42%	35.84%	29.24%

Source: Morningstar, 3 yr Return is annualized by Morningstar. Past Performance is not an indication of future results.

6/30/08

Dow: **11,350**

NASDAQ: **2292**

Barrel of Oil: **\$140**

Source: *USA Today* 7/1/08

S&P 500: **1280**

10Yr T-Note: **3.98%**

Inflation Rate: **4.2%** (5/2008)

Mr. Buffett, what is the secret to your success?

WB: *I was lucky enough to have great parents, I was lucky enough to find an occupation that I love, and I was lucky enough to be born in a great country, the United States of America and if you are lucky enough to find a great spouse, you just doubled down.*

Mr. Buffett, how do you stay so healthy?

WB: Without answering the question, Warren Buffett dips into a box of Sees Candy on the table in front of him (he owns Sees Candy). He ate a good looking milk chocolate, takes a sip of a Cherry Coke (he owns 8% of Coke) and says, *I have a balanced diet.* Seriously, he has a personal trainer and works out 45 minutes to an hour three times a week.

Mr. Buffett, I know you love to read, what is your favorite investment book?

WB: *The Intelligent Investor* by Ben Graham. Warren Buffett read it in 1950 at 20 years old. After over fifty years and six editions later *The Intelligent Investor*, is still his favorite investment book.

Christiansen Investments was fortunate enough to once again co-sponsor a Retirement Plan Investment Seminar with the Wisconsin Institute of Certified Public Accountants on June 26, 2008 with over 200 in attendance. The seminar featured Matt Flanary, an ERISA attorney from the Davis & Kuelthau, s.c. law firm, Bob Landaas, President of Landaas and Company and Steve Gilliland, author of *Enjoy the Ride*. At the seminar, we also had a chance to list the highlights of the book *The Intelligent Investor*. If you are interested in buying the book we suggest the 4th edition by Jason Zweig, which you can order on Amazon.com. The following are highlights of *The Intelligent Investor*:

- 1) Ben Graham says over 52 years the market had 11 cycles; six lasted four years, four lasted six years and one lasted 11 years. Jeremy Seigel, author of the book *Stocks for the Long Run* (4th Edition), says that over the past 200 years the average market cycle lasts four years and five months.
- 2) Buy during maximum periods of pessimism and sell during maximum periods of optimism in 10-20% increments, versus all at once.
- 3) Will you be brave or will you cave? Do not make investment decisions based on emotion!
- 4) **Maximum allocation to invest in stocks is 75%, minimum allocation to invest in stocks is 25%. If you don't know what else to do, be 50/50 for the long-term.** Fifty percent in stocks, fifty percent in bonds and cash and rebalance annually or at a minimum once every 3-4 years to match up with market cycles. According to Berkshire Hathaway's 2007 Annual Report, if you remove the companies that Warren Buffett owns outright, his overall asset allocation is approximately 55% stocks and 45% bonds and cash.
- 5) Ben Graham said the three most important words in investing are "**margin of safety**". Don't invest everything in stocks and don't pay too much for stocks which means, buy stocks or mutual funds with lower PE ratios.

Over the past 15 months, the Christiansen Investments' team has met with the vast majority of our 401(k) participants with the goal in most cases of pulling back and becoming more conservative after a strong four-year period in the market from 2002 to 2006. If you refer to the attached Spectrum Investor® 25-year Historical Analysis chart, you can see that **bonds (aqua)** finished last four years in a row. This signaled that with markets historically running in four to five year cycles, it was time to add bonds to investment portfolios. In the first quarter of this year, we suggested a portfolio for the average investor of approximately 60% in stocks and 40% in bonds or for our more conservative investors, 50% in stocks and 50% in bonds and cash. We suggest no more than 70% in stocks, unless you are in your 20s and 30s. Past performance is not necessarily an indication of future results.

Bob Landaas, who spoke at our WICPA seminar on the current economy, also suggested for the average investor an approximate asset allocation of 55-60% in stocks and 45-40% in bonds and cash in this market. If you have not had a chance to visit with one of our advisors at Christiansen Investments or if you are still losing sleep over your current asset allocation, rather than to totally sell out of the market, pull back another 10-15% out of stocks and into bonds and fixed income. An alternative to bonds and fixed income is a lower risk **balanced fund or asset allocation fund**, which is approximately 60% stocks and 40% bonds. As Bob Landaas says, "**It is never too late to reallocate**". For help in reallocating your portfolio, please visit our website at www.ciadviser.com for your 401(k) provider's website instructions or call our office for assistance at **(800)242-4735**.

The last speaker at our WICPA seminar was Steve Gilliland, author of the book *Enjoy the Ride*. Steve's enthusiastic message was to take the time to smell the roses. So give your family members a hug tonight, tell them you love them, and enjoy the ride.

For a copy of this newsletter and our ADV Part II, please visit our website at www.ciadviser.com. We appreciate your business.