

## Spectrum Investor® 4<sup>th</sup> Quarter 2008 Investment Review

Enclosed are your investment returns for the 4th Quarter 2008. Virtually every investment style, except the price of gold, was down for the year. Dow theorist Dick Russell famously said, "In a bear market, the winners are those who lose the least" (*Forecasts & Strategies* January 09). For the year, the S&P 500 Index was down 37.3%. The international EAFE index was down 43.3% and even intermediate bonds finished down 4.7%. Unlike previous market cycles, other than cash or treasury bills, there was simply no place to hide. A big reason, the global meltdown vs. a typical US recession. The simple answer to what went wrong is that the collapse of the housing market sent the credit markets into a tailspin, which pushed the economy into its deepest recession in a quarter century. If there was a turning point in the markets for the year, it had to be when Lehman Brothers was allowed to fail on September 15, 2008, which unraveled billions of derivative investments overnight (*WSJ* 1/5/09).

**So what did we learn in 2008?** The Bear Markets chart reminds us of how important it is to pay attention to market cycles. Jeremy Siegel, an economics professor at Wharton, said that over the past 200 years the average market cycle lasts four and a half years. What helps you as an investor is to refer to the attached **25-year Spectrum Investor® Historical Analysis**. When an investment style (color) does very well such as international (white) for four years in the mid 80s or large growth (red) for six years in the late 90s, rather than load up on it and let your emotions dictate your allocation, it was prudent to pull back on that investment style. Likewise, when a color does poorly for four years as bonds (aqua) did from 2003-2006, it was time to add a stronger position in the bonds (aqua) investment style. For this reason, with few exceptions, beginning in the second quarter 2007 our investment advice in our one-on-one meetings has been to allocate a greater portion of participant's 401(k) portfolios to stable value funds, bond funds and balanced funds while continuing to maintain a diversified portfolio. **Following the 25-year colored chart helps an investor by taking the emotion out of investing.** Keep in mind the more bonds (aqua) you have, the more conservative your portfolio will be. Following the colored chart also illustrates that no one investment style (color) does well forever, which is why, now more than ever, **it's so important to rebalance at least once every three years and if you are more conservative, to rebalance annually.**

**Good News:** The Federal Reserve is doing all they can to stimulate the economy, including lowering the Fed rate to an all time low of .25% on December 16, 2008. Add to that the proposed trillion dollar stimulus package on our nation's infrastructure along with a possible proposed tax cut by the next administration. Compare the above to the mistakes the US policy makers made in the 1930s: The government shrank the supply of credit through higher interest rates, raised import taxes in a botched attempt to protect American industry and increased income taxes to balance the budget. Over 7000 banks failed ([stlouisfed.org](http://stlouisfed.org)), with many depositors losing their savings because of the lack of FDIC insurance, one of which was my own father, who lost \$500 in his savings account during the 1930 Depression. The FDIC was created in 1933. In contrast, Federal Reserve Chairman Ben Bernanke, a student of The Great Depression, has aggressively cut interest rates and pumped billions of dollars of liquidity into the financial system. The US Treasury's \$700 billion emergency (TARP) plan should also help to remove troubled mortgage related assets from the US banking system (*Associated Press* 10/28/08). **Long-term, the bailout package will likely cause the dollar to decline in value.** Keep in mind, the value of the US dollar and the price of a barrel of oil are inversely related. As the value of the dollar goes down, the price of a barrel of oil goes up.

Historically, tax cuts, stimulus packages (think **infrastructure** stocks), lower oil prices and interest rates, etc. take six to nine months to have an impact on the economy, which would most likely be felt by the fourth quarter of 2009. Stock markets have traditionally anticipated recoveries in the economy three to five months in advance. This newsletter contains forward looking statements and actual events may differ materially. Past performance is not necessarily an indication of future results. For the average investor we suggest to take a moderate position in your asset allocation of no more than 60% stocks/40% bonds. However, if you tend to be more conservative we suggest an asset allocation of 50% stocks/50% bonds. Action you could take outside your 401(k) would be to **refinance your mortgage**, with interest rates at a 50 year low. If you are struggling to make your home mortgage payments, don't wait for help. Call your lender as soon as possible to work out a solution. If you didn't have a chance to meet with us one-on-one in the past 18 months, call us at 800-242-4735 or email us at [ci@ciadviser.com](mailto:ci@ciadviser.com). Prospectus are available on your providers website. **It's never too late to rebalance.** Despite a very tough 2008, Christiansen Investments again had the good fortune of being featured in the December 2008 issues of both *planadviser* and *PLANSPONSOR* magazines and being recognized as one of the top 401(k) investment adviser teams in the country. **This newsletter is for informational purposes only and is not an offer or a solicitation for any specific product or investment. You should consult with a financial advisor regarding your specific situation.**

We appreciate your business.

## Spectrum Investor® Update 12/31/08

Category Average	4 <sup>th</sup> Qtr	1 Year	3 Year
Intermediate-Term Bond	-0.61	-4.70	1.08
Moderate Allocation	-15.09	-28.00	-5.31
Large Cap Value	-21.60	-37.09	-8.92
Large Cap Blend	-22.07	-37.79	-9.03
Large Cap Growth	-23.31	-40.67	-10.28
Mid Cap Value	-24.01	-36.77	-9.93
Mid Cap Blend	-25.56	-39.18	-10.33
Mid Cap Growth	-26.47	-43.77	-10.92
Small Cap Value	-25.17	-32.24	-9.63
Small Cap Blend	-26.34	-36.56	-10.07
Small Cap Growth	-26.65	-41.55	-11.35
Foreign Large Blend	-20.94	-43.99	-7.67
Real Estate	-38.54	-39.55	-12.82
Natural Resources	-32.93	-48.79	-8.42

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

## S&P 500 Bear Markets Since 1929

Start	End	Months	% Change
Sept. 3, 1929	June 1, 1932	33	-86.2
July 18, 1933	March 14, 1935	20	-33.9
March 6, 1937	March 31, 1938	13	-54.5
Nov. 9, 1938	April 28, 1942	42	-45.8
May 29, 1946	June 13, 1949	37	-29.6
Aug. 2, 1956	Oct. 22, 1957	15	-21.6
Dec. 12, 1961	June 27, 1962	6	-28.0
Feb. 9, 1966	Oct. 7, 1966	8	-22.2
Nov. 29, 1968	May 26, 1970	18	-36.1
Jan. 11, 1973	Oct. 3, 1974	21	-48.2
Nov. 28, 1980	Aug. 12, 1982	20	-27.1
Aug. 25, 1987	Dec. 4, 1987	3	-33.5
July 16, 1990	Oct. 11, 1990	3	-19.9
March 24, 2000	Oct. 9, 2002	31	-49.1
Oct. 9, 2007	Nov. 19, 2008*	13	-48.5

\*ongoing Source: *WSJ* 9/22/08

Dow: 8776  
NASDAQ: 1577  
S&P 500: 903  
Barrel of Oil: \$44.60  
12/31/08

10Yr T-Note: 2.22%  
Inflation Rate: 1.1% (11/2008)  
Unemployment Rate: 7.2%  
Source: [www.bls.gov](http://www.bls.gov) (9/08)  
Source: *USA Today* 1/2/09

2009 401(k) salary deferral limit- \$16,500  
2009 401(k) age 50 Catch-up limit- \$5,500