

**Spectrum Investor Special Report
September 2008**

First it was Countrywide, then Bear Stearns and more recently Freddie Mac and Fannie Mae. In the last week Lehman Brothers, a major Wall Street banking house, filed for bankruptcy. Merrill Lynch, whose mascot is the bull, was bought by Bank of America. AIG received an \$85 billion line of credit for 24 months from the Fed and the market has taken investors on a roller-coaster ride (*Wall Street Journal*, 9/16-17/08, Yahoo! Finance). In order to calm the markets and provide liquidity to strained financial firms, the federal government is proposing the creation of a new agency that would buy the troubled assets at deep discounts to get them off the bank's books and encourage new economic activity. (CNNMoney.com 9/18/08)

Over leveraging has been the cause of many past financial crises and will undoubtedly be the cause of those in the future. The current market crisis is the ugly aftermath of the credit mania that began to take place in the middle years of the decade. As historian Charles Kindleberger writes in his book, *Manias, Panics, and Crashes: A History of Financial Crises*, financial manias throughout history have shared one trait – the excessive expansion of credit. This bubble is no different (*WSJ*, 9/16/08).

Despite the market turmoil, the American economy has been resilient when faced with similar downturns in the past. According to the chart, the average bear market lasts 14 months, while the average bull market lasts 70 months. The current bear market began October 9, 2007 when the S&P 500 closed at an all-time high of 1,565. As history points out, markets do recover. (Source: S&P, Google Finance) Past performance is not necessarily an indication of future results.

Given the market cycles, over the past 18 months in our quarterly newsletters and numerous participant one-on-one meetings, we have been suggesting asset allocations with a greater emphasis on stable value, bond funds, balanced funds (moderate allocation) and world asset allocation funds (moderate allocation). We are trustful that with your more conservative asset allocation you are confident enough to weather the Wall Street storm. **If you have a diversified portfolio, we suggest staying the course.** However, if the market continues to make you nervous, you can measure your overall risk tolerance as defined by “selling to the sleeping point”. If you are losing sleep over this market, you may want to add another 10-20% to stable value, bond funds and balanced funds.

In the past, **one of the mistakes investors make in this type of market is to pull entirely out of stocks.** As we mentioned in our June 2008 newsletter, Ben Graham, author of *The Intelligent Investor*, suggests that when you buy or sell stocks, move 10-20% of your assets versus all at once. This way you are still well positioned for a recovery in the markets. As Ben Stein says in his book *Yes! You Can Still Retire Comfortably*, if you don't know what else to do, be 50/50 where 50% of your money is in stocks and 50% is in bonds for the long-term. We suggest that you stay the course and keep investing in a broad array of asset classes. Think of today as the market having a “sale” and you are buying cheaper. If there is a silver lining in this market with lower interest rates, you may want to consider refinancing your homeowner mortgage if you haven't done so already.

If you missed our one-on-one sessions in the past 18 months, or are still nervous, give our office a call for assistance at 800-242-4735. For step-by-step instructions on how to access your account and make changes, visit our website at www.ciadviser.com. With the stock market gyrating, look at today's market as no different than riding a rollercoaster at Six Flags. **The best thing to do on a rollercoaster ride is to hang on and don't jump off. If you hang on, long-term you'll be okay. Stay the course.**

Bear Market Cycles vs. Subsequent Bull Runs					
Market Peak	Market Low	Bear Return	Length of Decline	Bull Run	Length of Bull Run
5/29/46	5/19/47	-28.6%	12	257.6%	124
7/15/57	10/22/57	-20.7%	3	86.4%	50
12/12/61	6/26/62	-28.0%	7	79.8%	44
2/9/66	10/7/66	-22.2%	8	48.0%	26
11/29/68	5/26/70	-36.1%	18	74.2%	32
1/5/73	10/3/74	-48.4%	21	125.6%	75
11/28/80	8/12/82	-27.1%	21	228.8%	61
8/25/87	12/4/87	-33.5%	3	582.1%	150
3/24/00	10/9/02	-49.1%	31	-	-
Average:		-32.6%	14 mo's	185.3%	70 mo's

Source: Standard & Poor's, FTSE, MSCI Inc., Nymex, Lehman Brothers, NAR, EcoWin, JPMorgan Asset Management. In the above table, a bear market is defined as a peak to trough decline in the S&P 500 Index of 20% or more. All returns are S&P Index returns, and do not include dividends.