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The Triad Perspective

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Triad Points of Interest:

- Today the level of investor pessimism is the highest since 1974.
- The primary measure of stock market volatility, the VIX, recently hit 80, the highest level ever recorded. Even readings of 40 are considered extreme; thus, the current number is truly incredible.
- $84 billion net redemptions out of US Stock and Bond funds in October represent the highest level ever recorded.
- According to the Wall Street Journal, 10% of all listed companies are now trading below their cash holdings, and 40% of all stocks tracked by Standard & Poors are trading at 8 times earnings or less.
- 2008 is on track to be the worst year for the stock market since 1931, and October was the worst month ever with the S&P 500 falling 17%.
- Roughly $11 Trillion of paper wealth has evaporated between the collapses in housing and stock prices.
- Based on recent inflation adjusted real personal consumption expenditures, there is no longer any question that the first consumer recession since 1991 is upon us.

Our Thoughts:

In recent months, the stock market has ignored every layer of support and moved continually lower. Under most circumstances the simultaneous presence of historically low valuations, abundant investor pessimism, oversold technical measures, falling energy and gas prices, election year tailwinds, and the accommodative central bank policy could be considered to offer a pretty powerful base of stabilization. However, seeds for a new bull market have little chance to sprout when being trampled by the action of the great majority of emotionally driven investors fleeing from stocks, which was the case in October and now continuing in November.

We have been conditioned as investors that it’s generally not a good idea to fight the Fed, nor is it a winning proposition to fight the tape. However, when it is the Fed fighting the tape, it instills a sense of fear in all of us and fear is what is driving the market sharply lower. Fear is followed by panic, which is followed by forced liquidations by those who control the market – hedge funds and mutual funds.

This negativity, or reality, is not intended to scare you into doing just the same – panic and liquidate, but to do just the opposite and maintain exposure or buy more through portfolio rebalancing. The stock market typically bottoms just beyond the midway point of a recession and we continue to believe that the US economy entered a recession in the fourth quarter of 2007. So at this point, the recession is likely at or near 12-months in duration and outside of the Great Depression, the longest recession of the last 100 years has been 24 months. Valuations based on normalized earnings are now at levels where forward stock market returns have been superior. Bear market recoveries tend to produce very impressive gains. Since WWII, the median bull market gain has been 33% by the end of the first year, and grown to 56% by the end of the second year. Obviously, history is no guarantee, but it provides hope. Hopefully without sounding like a broken record, the time to buy is when things look the worst. We think it’s safe to say that things look pretty bleak right now.

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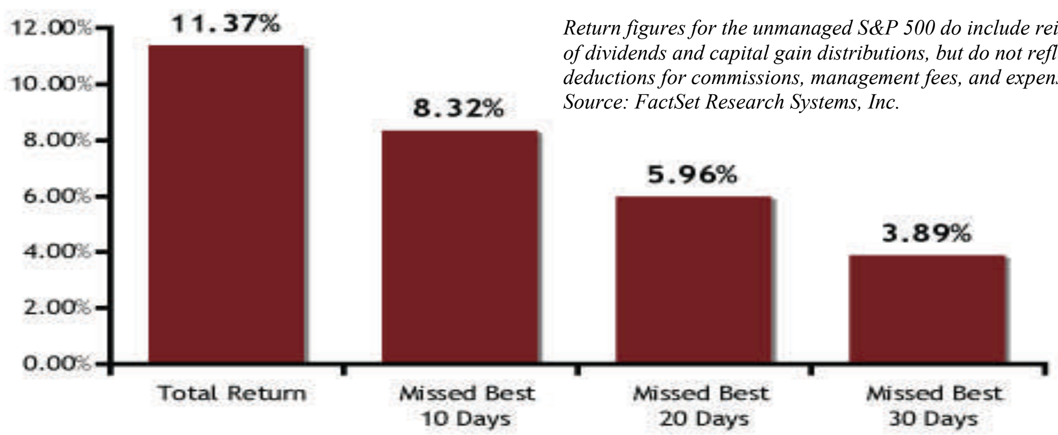
Positioning Your Portfolio

We have spoken or emailed with the majority of you and we continue to tell the same story – maintain your equity allocations and rebalance where appropriate or under-weight. Asset Allocation has proven to work for decades, it forces you to buy low (Equities) and sell high (Fixed Income). Although fixed income has not held up as well as we had hoped going into this bear market, relative to equities, fixed income has been a safe haven. Unfortunately no one can time the exact bottom, but we feel it's time to take profits and rebalance into under-weight equity classes.

It is also important to remember that Time in the market, and not timing of the market, is the best way to capitalize on the stock market's long-term expected returns. By deviating from a reasoned, long-term financial plan and trying to time the market or predict the best time to buy and sell, you may end up missing a substantial portion of the market gains. The chart below illustrates this example utilizing the Standard & Poor's 500 Index for the period from December, 1990 through December, 2007. It shows that if you remained fully invested during this 17-year period, you would have earned almost twice as much on an annualized basis as someone who missed only 20 of the market's best days. Likewise, you would have realized more than 3% annually over someone who missed the 10 best days of gains over this period.



Return figures for the unmanaged S&P 500 do include reinvestment of dividends and capital gain distributions, but do not reflect deductions for commissions, management fees, and expenses. Source: FactSet Research Systems, Inc.

Miscellaneous items:

- We have made a few "Inter-class Exchanges" this month switching to the institutional share class for the following funds – ***Jensen***, ***Turner Midcap Growth, and Templeton Global Bond***. The institutional share class has a lower expense ratio and higher minimum purchase amount. Please note that this is a non-taxable event. Cost basis will carry over to the new share class and fees are not incurred for the transaction.
- We have now set up "Lock Boxes" on our website for each client. These lock boxes can be accessed through our website using a client ID and password. Please contact our office (jennifer@triadw.com) to request yours. The lock boxes are intended for an easy and secure method of storing documents including monthly portfolio performance reports.

As always, we welcome any feedback. If you would like to discuss any of the items above or touch base on your portfolio, please don't hesitate to call our office. We understand that the current market environment is causing us all stress, anxiety, and discomfort and we hope you look to us for support.

All of us at Triad wish you a wonderful holiday season!

Sincerely,

Larry Knudsen & Dan Stober

Source: Icon Advisors, Leuthold Weeden Institutional Research, Evergreen Virtual Advisor