

No Where to Hide, What to do Now

In my 21 years in the securities industry I have never seen anything like this market. Usually there is some place to hide and ride out volatile times. The year started out that way. If your investments were diversified, their value was probably higher through the middle of May. Then the banking issues started to surface and the stock market started to slide. If you stayed out of Financials and Consumer Discretionary stocks, your account did much better than the market.

What we didn't recognize is the unintended consequences of Lehman going under and financial firms lowering their leverage. To raise cash quickly, brokerage firms called in loans from individuals, companies and hedge funds. To raise the cash to repay these loans, individuals, companies and hedge funds had to sell securities. This created a sell off in the market that lasted 7 days and became the largest continuous drop ever. It was what one analyst called an "equal opportunity" bear market. If you look at the sector table above, you will see that every sector in the market was negatively affected. As you would expect, financials were the hardest hit. Even individuals who invested in utilities were hit hard with that sector down 32% for the year. If you diversified by owning different asset classes you still found no place to hide. The graph below shows how all major asset classes were down 35%

or more. The only asset class that fared slightly better was corporate bonds. They were down 40% at one point but they have recovered some of their value and finished the year down 22%. The only asset classes that didn't lose money in 2008 were cash and government bonds.

2008 S&P 500 Sector Returns

Basic Materials	-47%
Consumer Discretion	-35%
Consumer Staples	-18%
Energy	-36%
Financials	-57%
Healthcare	-25%
Information Technology	-44%
Industrials	-42%
Telecommunications	-34%
Utilities	-32%

Because of the slow down in the economy even commodities were hit hard. The CRB index, which tracks commodities, was down over 36% for the year. If you invested in gold you made 4% this year.

As always, Marshall & Sullivan is reviewing our holdings and selling any company that will not be able to grow its earnings in the current economic environment. Forced selling by hedge funds and other leveraged investors caused many good companies to be sold off unfairly. We are using the cash in our accounts to take advantage of this forced selling. This will be a thoughtful process and will be done

over the next 6 months. For our balanced accounts, we will continue to buy short and medium term government and/or municipal bonds keeping that portion of your account safe. We will use this time to insure we are positioned for when the economy once again starts to grow.

Greg Robinson CFA, President
greg@msinvest.com

Major Index Returns for 2008

