

March 31, 2008

Dear clients,

Congratulations are in order. In the words of the famous British economist of the first half of the 20th century, Lord John Maynard Keynes:

“I would say that it is from time to time the duty of the serious investor to accept the depreciation of his holdings with equanimity and without reproaching himself. An investor is aiming, or should be aiming, primarily at long period results, and should be solely judged by these. The fact of holding shares which have fallen in a general decline of the market proves nothing and should not be a subject of reproach.”

Although the performance of most global equity markets has been negative going back to last fall, you indeed have accepted these results with an aplomb that I am certain would make Lord Keynes proud. And as you know from last quarter’s letter and message this sort of responsible behavior is what truly matters. Many of my colleagues within the financial services community are astonished when I tell them my phone wasn’t all that much busier in the midst of the subprime mortgage lending and Bear Stearns meltdowns than it is on any routine business day. Sure there was an occasional reassurance to a few that our style of low-cost, broadly diversified, asset class investing is an all-weather, logical, and eminently rational approach to investing that should give you great confidence of success in the long run, but I received none of the panic stricken, sky is falling, flee to treasuries calls that other advisors reported, and even worse, may have recommended to their clients. Great job to all!

As I have spoken and written in different ways for many years, the bottom line is that higher returns just cannot be expected of stocks vis-à-vis bonds and cash without accepting a commensurate amount of additional risk. However, a great deal (but never all) of this risk can be eliminated by sufficiently diversifying equity holdings **and** by being patient. What we are then left with is the opportunity to achieve higher inflation fighting returns as long as we willingly and without regret, accept these occasional and unavoidable periods of generally declining stock prices. Plain and simple, enduring these rough patches, even in very broad based equity markets, is the price we pay to maximize our long-term odds of investment success.

As if the Enron and WorldCom debacles did not give investors enough appreciation for the merits of properly and effectively diversifying, we now have another sobering example. Any ideas on what company spectacularly outperformed the great Warren Buffet and Berkshire Hathaway by over 4 ½% per year (approx. 24% per year vs. 19% per year) for the twenty year period ending December 2006? Who can dispute that this must have been an extremely satisfying and rewarding twenty plus year run for this firm and its shareholders from its IPO date until very recently? Unfortunately, this is one and the same company whose stock price plummeted from \$171/share in January of 2007 to just \$10.41/share as I write this letter today (a drop of almost 94% in a little over a year)! The company? Bear Stearns. The lesson? Diversify, because strange things can and do happen and your life savings is much too important to subject to such unnecessary and uncompensated concentration risks.

I don’t think I have as yet achieved my objective of boring each of you so thoroughly with regard to the construction and maintenance of your investment portfolios that you would prefer to watch paint dry or grass grow rather than follow the daily ups and downs of your holdings. I know I still have work to do here but I am not going to give up! ☺

Be well all,

