

June 30, 2005

Dear clients,

The other day in the course of catching up with my reading on current issues relating to financial planning I came across a short article entitled, "What is the Real Reason You Should Invest?". The article answers this question in an intelligent and reasonable way and I thought this might be a good forum for me to share with you some of its ideas. Quite candidly I expect most of you will already be familiar with this writing's main areas of focus. However, I suspect many of your family, friends, associates, colleagues, etc. could probably stand a little brushing up in this area so don't hesitate to "set them straight" if you feel the urge. You will be doing them good whether they immediately know it or not. Here goes:

The thrust of the article relates to the idea that most investors' goals are simply to "earn the highest possible return without losing money." Invariably, the problem with this approach is that in the vast majority of cases this mindset leads to portfolio construction via "performance chasing" behavior. In other words, those without a plan regarding appropriate design of a portfolio often fall into the trap of buying the hottest investment of late because it is what so many are talking about and touting. The problem with this approach is that by the time "everyone" has heard about some great investment it is almost certain that the blockbuster return period (assuming it was even bona fide to begin with) has passed. Who of us doesn't know someone who thought loading up on tech stocks was a great idea when the NASDAQ surpassed 5,000 and selling was a great idea when it bottomed out near 1,100? What has this investor accomplished? The exact opposite of what he was trying to do, he bought very high, sold very low, and hopefully (but probably not) became a much wiser and more learned investor.

So now to answer the question at hand, the real reason you should invest is to help you achieve your major life goals such as a comfortable and secure retirement or college funding for children and grandchildren. This isn't done by attempting to beat or time the market but rather by assembling and maintaining a mix of low-cost investments that work well together and by consuming your nest egg at a responsible rate. The article also touches upon the very important idea that many misguided investors initially take way too much risk and once this harsh lesson has been learned they respond by not taking enough of the right type of risks. They have missed the point again. Some risk/volatility is appropriate, and actually welcome, but the risk associated with not being properly diversified can derail your retirement express train faster than anything. If I've said it once, I've said it a thousand times, **"Diversification definitely reduces risk without necessarily giving up return. It's a great deal!!!"**

So, if you really want to help out a friend or loved one some day, go ahead and challenge them when they start talking about the next can't miss or home run investment. Let them know that the risk/return tradeoff is here to stay and the unwary investor who doesn't understand this most fundamental economic principle is living extraordinarily and unnecessarily dangerously. For those of you interested, I have posted this article on my web site (www.foxfinancialservices.com) in the Quarterly Letter area (right under this letter).

Thanks for reading everyone! Enjoy the rest of the summer and please don't forget to tell your friends to be sure to wear their life jackets if they decide to dive into the deep end of the get rich quick investment pool. Be well all!!

Andrew