

October 3, 2008

Dear clients,

Greetings. Let's get right to it. Managing risk is integral and vital to smart investing. Some speculators with highly concentrated positions in failed companies have lost hugely. Likewise, a few of Wall Street's oldest and most venerable firms are now extinct. Also, thousands and thousands of borrowers who were allowed to purchase and/or refinance homes with little ability to repay the debt, and who were counting on nothing more than an ever-rising real estate market to protect and reward them, lost their bets. The one common denominator all of these examples have is that in each case risk was dealt with abysmally. These disastrous endings were totally unnecessary if the parties involved had used common sense and avoided some of the trappings that ensue when ignorance, arrogance, and greed are combined in a deadly toxic recipe.

In spite of what so many in the press and Washington might have you believe, make no mistake, global financial markets will survive. History shows us clearly that markets are resilient. Many will learn their lessons from recent events but many others won't. Right now fear is winning in its constant battle with greed but given time greed will assuredly make a strong comeback. And over the course of our lifetimes, and that of future generations, this battle will interminably carry on. As I have spoken and written about many times, the risk/return tradeoff is here to stay. Intelligent, disciplined, long-term investors actually welcome risk in equity markets because without it we would have no reason to expect higher commensurate returns. We don't willingly expose our live savings to volatility and wild market gyrations just for the thrill of it but rather for the rationally expected, and market demanded, superior long-term results. Those of us who recognize and respect this, and allow the powerful forces of capital markets to work for us, will have a successful investing experience. Those who see things differently will be leaving their financial futures largely to luck and chance. We know the best way to go.

With this being said, let's get to some specifics. Most of our investment portfolios are down somewhere between 10% and 15% so far this year (see attached report for your precise returns). Historically, this is hardly unprecedented. And because of our prudent approach to investing this is no reason to be disappointed or fearful. Conversely, when we experience gains of similar or even larger amounts we have no reason to rejoice or be ebullient either. Our portfolios are all-weather, broadly diversified, expect significant market volatility, and are designed in a fashion to produce reliable, sustainable, inflation-adjusted income for our entire planning horizons.

Let me wrap-up by clarifying exactly what I mean when I talk about having an objective of "boring you to success" vis-à-vis your investment portfolios. I want the **process** to be boring. In other words, once we have committed to a particular asset allocation that is appropriate for you, barring any material changes in your unique circumstances (not the markets!) we will stick with this mix for a very long time. The ups and downs of the markets, and cash flows, will necessitate a degree of buying and selling but only for the purpose of rebalancing back to our optimal mix. This approach mathematically forces the "buy low-sell high" discipline upon us so that we may keep our portfolios within our desired range. With this definition, boring should not be misconstrued for conservative, nor should it be interpreted to mean that your short-term returns will not fluctuate largely from time-to-time. This is part of the deal. But no matter you should always go to bed each night secure with the comfort and brimming with the confidence that goes with being the smart, savvy, and responsible investors you are.

Be well all,

