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Waiting for the Storm to Pass

August Market Review From Your Portfolio Management Team—September 9, 2008

The summer months can be slow in the stock market. Many professional investors take time off especially in August, so trading gets pretty quiet. It can be hard to pick up new trends during this time because things could change quickly as the trading volume picks up in September. As a result, it is hard to decide what to make of the market's slight increase in August. The S&P 500 index rose just over 1%, while the Dow Jones Industrial Average (of 30 large US companies) fell slightly—about 0.3%. Given the ongoing troubles among financial companies, we are inclined not to put too much credence in the market's positive blip during the summer doldrums.

Looking forward, September is historically the weakest month of the year. According to *The Stock Trader's Almanac*, September has been down almost 1% (measuring market data from 1950). As a result, we would not be surprised if the market continues to struggle in September. The silver lining to this fact is that we are approaching the seasonally strong period which often begins towards the end of October (and runs through the end of April). So, we maintain some optimism that we could finish the year on a good note.

In any event, we continue to maintain our high money market positions. Most accounts are actually 100% money market, even though there are a few portfolios with some mutual funds remaining. The one area in the market that has been strong this year and last year was the natural resource area (which includes commodities such as oil, gold, agriculture, as well as the companies that produce and distribute them). Well, this area has rolled over the past two months and has joined the rest of the market in trending downward. That leaves us with no attractive areas to own right now, besides cash.

Is My Money Safe?

We have received questions from a few of you recently concerning the safety of the money in your Schwab accounts. These questions usually come from two vantage points: 1) Is the Schwab money market fund that we use in our FSA accounts safe? The answer to that question is 'Yes.' We have our money market assets (and we have nearly 100% of our total assets in money markets currently) in the Treasury-only money market fund, which is the safest money market fund available. The interest payment is guaranteed by the full faith and credit of the U.S. government.

So, our money market assets are safe from the mortgage mess that is swirling around Wall Street these days. We moved the money market assets from the Premier money market (which COULD have some exposure to mortgage derivatives) to the Treasury money market in August 2007, as the credit crisis was breaking on the scene, as an extra measure of safety for client accounts. We sacrifice some yield to be in the Treasury money market, but we also know there are no ticking time bombs in that portfolio.

2) The second question revolves around Charles Schwab & Co., as custodian, and what happens if they face financial stress, similar to what has befallen Bear Stearns or Lehman Brothers. Well, here are the facts.

Money in a Schwab investment account is NOT insured the way a deposit at a bank is insured. That is because Schwab does not own the investments in your account. Schwab is acting only as custodian on your behalf on the account, while you own the securities. If Schwab were facing financial trouble, your investments would continue to trade according to market behavior and would not be affected by the difficulties at Schwab (unless you owned Schwab stock—ticker SCH).

Bear Stearns also had a custody business similar to Schwab and the assets of those clients were not at risk, and they were merely transferred to JP Morgan. If, for some reason, Schwab was facing bankruptcy, their custody assets (including our investment accounts) would be transferred to another custodian. Bear Stearns ran into problems because of other areas of their firm, not due to problems with their custody business. To the best of our knowledge, Schwab is not exposed to the mortgage and subprime mess in the way that Bear Stearns was, and thus we do not believe their firm is subject to this risk.

Now, there is a type of insurance that brokerage firms have access to, and that is called SIPC (Security Investor Protection Corporation). That insurance is to protect investors from theft or fraud of your investment account. It is not to protect against loss, but only against theft or fraud.

Money that you have in a checking account or a savings account at a bank is insured by the Federal Deposit Insurance Corporation (FDIC) for up to $100,000 per individual. So, if you have multiple accounts at the same bank, there are somewhat confusing limits that may allow for amounts greater than $100,000. For example, retirement accounts carry a higher insurance limit--$250,000. If you have more than $100,000 in bank assets, and want to know if all those assets are insured, please give us a call and we can review with you.

Finally
A special thank you for those clients who participated in our recent market review ‘webinars.’ Webinars are a technology that allows us to show you charts and slides on your own computers. In essence, it allows us to have a meeting with you from the comfort of your own home (or office). If you were unable to attend one of these webinars, but would like to participate in a future session, we plan to schedule another one in the coming weeks. So, stay tuned.

And, as always, let us know if there is anything we can add to these monthly reports that would help you better understand what is happening in your accounts.