



**ROBERT FRAGASSO, CFP®**  
President

## What to Make of the Current Market?

We are fortunate to have clients who have taken to our financial educational approach to investment management. As such, they tend to stay relatively calm during periods of market uncertainty such as we are currently experiencing. However, they do ask legitimate questions that center on their individual goals and how the market's downturn may impact their realization. This is our attempt to address those questions.

Let's use a question and answer format to cover the most common issues.

### Client

*Is this time different? Is this presenting a new paradigm that should make us more cautious than usual?*

### Fragasso Financial Advisors (FFA)

We believe there are no new paradigms. History repeats itself, but with new wrappings. Please view the attachment reflecting all downturns and upturn years from 1926 through mid-year 2008. Is this time different than the two downturns of the 1930s? World War II? The 1970s Oil Embargo? The early 2000s? How about the recessions of 1946, 1957, 1962, 1981, and 1990? Sounds like ancient history, and much of it is. But 2008 will become old news also.

So what makes this different? Probably nothing except the causes. Recessions and near-recessions occur because of economic factors and they have always resulted in meaningful recoveries. If there is no recovery this time, it will not only be the first time in history that has occurred, but you will have much more to worry about than the value of your portfolio.

We submit that the lessons of history, through all times periods, will prevail. So this time is not different than the other times in the effect, the outcome and how we should continue to invest our money. And that would be guided by the sound textbook principles that we utilize on your behalf. Diversification, balance and asset allocation have earned their place in the textbooks because they work.

### Client

*Why don't we just get out now and sit on the sidelines. We can get back in when things look better.*

### FFA

That sounds like it can be done – but it cannot. No one has the ability to look into the future and know when to exit and enter markets. We wish we could. But we interact with many of the best money managers in the country and they don't know how to do that either, as no one can. You do not read that sort of timing-of-markets advice in the textbooks, but you do sometimes in some newspapers and magazines. There is a difference in sources of information.

Let's try a test. Here are two years where the first quarter was down.

<u>Year</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>
X	(2.62%)	(1.50%)	0.97%
Y	(1.46%)	(1.93%)	3.76%

OK, which year would you be out and which in? You don't get to see the future here. Timing markets only looks easy and attractive when you are looking backward. You don't have that luxury in real time where you have to make those decisions.

So pick the year to be in or out. Picked yet?

Here are the answers.

Year X was 2003 and year Y 2002. Go to the [attachment](#) and see the years' total results.

Timing cannot be accomplished.

### Client

*Well, what does work?*

### FFA

Staying fully invested in an asset allocation model that was suitably determined in your financial plan relative to your goals, time frame, family responsibilities and risk tolerance level. Take a look at your actual performance as the June 30<sup>th</sup> performance reports come to you in the next week or so. Compare that performance to the indices that are also in that report. Please focus on that and not on the performance statistics that you see on the television. Those are not for your portfolio. And then go back to the attachment with historic data and take comfort that your portfolio will likely accomplish what you expect it to do over time if you follow the correct course of action. Fear and panic motivation is never part of good decision making.

### Client

*What has FFA done to help mitigate the downturn?*

### FFA

As we have reported to you regularly over the last months, we have screened the securities in your portfolio for appropriateness to their assigned sectors and we have selected individual stocks with an eye to the current downturn. And your bond funds have been chosen with an understanding of the underlying maturities of the bonds those funds hold.

### Client

*What do I do now?*

### FFA

Keep asking those good questions. We welcome the opportunity to answer them and to talk with you any time there is something on your mind. That guidance is part of our service to you.

And we appreciate the confidence you have placed in us. We will continue to work hard to justify it.

Sincerely,

Bob Fragasso  
President