

October 14, 2008

## PANIC IS NOT A STRATEGY

For sure, these are trying times for the financial markets and for investors. During the last two weeks, the Dow Jones Industrial Average (DJIA) experienced both its largest one day point loss and its largest one day point gain in its 112 year history. On September 29, the market slid 777 points and on October 13, it gained 936 points. The volatility index has recorded its highest readings ever. In October 2007, the DJIA recorded its all time high at 14,163.

Yesterday, we e-mailed an article entitled, *Those With a Sense of History May Find It's Time to Invest*. After reading the article, a long-time friend e-mailed me in response.

He wrote, "I agree with this article, and in fact had read it. Friday, when the market plunged briefly to 7888, I took \$50,000 I had waiting on the sidelines and put it back in the market. I figure even if the market goes down further, there's more long-term upside now than downside, 5 years out. So, I'm buying. I put a bit more in this morning. Baby steps, cautious, but I guess this is what is meant by Warren Buffet when he says, "sell when everyone else is greedy, buy when everyone else is in a panic".

His message went on to say, "Earnings in the next quarter will be ugly, so there's still some down times to come. But thinking long term, this will be one of those buying opportunities everyone looks back on 5 years from now."

These are wise words and I agree with my friend. Investors like to invest when they feel comfortable and sell when they are uncomfortable. This amounts to "buy high, sell low"----the opposite of what a successful investor does. Over time, emotionally-driven investing leads to poor returns.

At Financial Insights we fully believe that panic is not a strategy. As such, we have taken a disciplined and deliberate approach in response to current market conditions. We have performed a thorough review of each client account and asset allocation in conjunction with the client's goals. Below is a recap of our actions and recommendations:

- **Cash Needs:** If you are retired or have set a retirement date and plan to withdraw from your retirement accounts, funds for living expenses for the next 3-5 years need to be in money market or certificates of deposit. They should not be in the market. The same goes for relocation costs, a down payment on a home, or any cash need in the next few years. Accounts with existing and upcoming cash needs were reallocated by increasing the fixed portion with cash accordingly. The fixed portions of client accounts include money market funds, certificates of deposit and cash. Many of the mutual funds we use have a fixed component as well.
- **Required IRA & 401(k) or 403(b) Distributions:** The year a person turns 70½ years of age, a distribution must be taken based on a formula. This is known as a Required Minimum Distribution (RMD). The rules changed a few years ago and instead of three calculation methods there is now only one. In client IRAs, we maintain several years of funds in money market or Certificates of Deposit so that we do not have to sell mutual fund shares in a down market. We will send out IRA distribution forms to our RMD clients in November. Please make note that The Charitable IRA Distribution rule was extended for 2008-2009. This means that RMDs can be directed to charities, if you so desire, and the income will not be reported on your tax return.

- **401(k) or 403(b) Retirement Contributions:** We recommend that you continue to make contributions to your plans. Remember, you are buying more shares at a cheaper price and when the stock market rebounds so will your account balance.
- **2008 Federal Tax Return:** Washington State residents and 7 other states that do not have a state income tax will be able to deduct sales tax based on a published table or the actual sales receipts. We encourage you to save your sales receipts on a consistent basis in order to take advantage of the deduction.

Years ago, while developing Financial Insights, a decision was made that has an impact in the service we provide to clients today. In 1984, I was with a local small financial service firm. A larger firm offering more services for our clients was needed and three firms were interviewed as a result. Only two of those firms are in existence today because the third firm went out of business due to poor management. During the interview process, a trip was made to St. Petersburg, Florida and discussions were held with many of the people employed at **Raymond James**. The firm's culture and values at that time remain constant today: management integrity, conservative fiscal management, placing the client first, and superb decision making by **Tom James**, CEO and chairman of Raymond James Financial. I also think it pays to be away from the *herd mentality* thinking of New York. Affiliating with Raymond James was the best decision ever made for our clients. With the demise of Bear Sterns, Lehman Brothers, and Merrill Lynch the stability and strength of Raymond James becomes even more important.

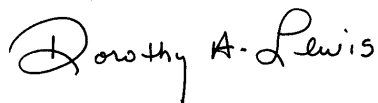
**Raymond James ranked "Highest in Investor Satisfaction With Full Service Brokerage Firms" in J.D. Power and Associates 2008 Full Service Investor Satisfaction Study<sup>SM</sup>.**

No doubt, there are major issues that need to be addressed and corrected in the US financial and regulatory environment. Suze Orman recently explained the situation in an easy to understand manner. She said to think of the economy as a very sick patient that will be in intensive care for a while; later they will be move to the general ward of the hospital and finally they will go to rehab. The US had a savings rate of 11% in 1981 and by 2000 it was minus 1%. For a long period of time, the US has annually consumed 6% more than it produced and now we are going to pay the price. Many Americans, including myself, feel the political system is broken and has not served the people well. As a result, we are all going to experience some pain and it will take a while to correct. My bet is on the people of the United States because I feel there are enough people who will do the right thing for the right reasons.

We appreciate your trust and confidence, especially during this difficult time. Please call Gini, Terry, Marilyn, Tingwei, Sunny or myself because we are here to help you.

Sincerely yours,

**FINANCIAL INSIGHTS, INC.**



Dorothy A. Lewis, MA, CFP®  
Registered Investment Advisor Agent

The information contained in this report does not purport to be a complete description of the securities, markets, or developments referred to in this material. The information has been obtained from sources considered to be reliable, but is not guaranteed by Financial Insights, Inc. and is not a complete summary or statement of all available data necessary for making an investment decision. Any information provided is for informational purposes only and does not constitute a recommendation. Expressions of opinion are as of this date and are subject to change without notice.