

## Investment Perspective

First Quarter 2008

"If you aren't willing to own a stock for ten years, don't even think about owning it for ten minutes." Warren Buffett

SFP Core Strategies*	Quarter 1 2008	One Year
US S&P 500	-9.43%	-5.10%
US Large Value	-7.68%	-12.00%
US Micro Cap	-10.27%	-16.34%
US Small Value	-5.88%	-18.50%
US Equity Real Estate	2.29%	-19.61%
International Large Value	-8.20%	-3.65%
International Small Cap	-5.14%	-7.32%
International Small Value	-3.66%	-9.07%
International Real Estate	-4.32%	-17.88%
Emerging Markets	-8.78%	18.84%
Emerg Mkts Small Cap	-13.80%	10.83%
Emerging Mkts Value	-9.51%	22.68%
Ultra Short Fixed Income	0.85%	4.67%
Shrt/Inter Global Fixed Inc	1.03%	4.91%
Inflation Protected Sec	6.31%	15.93%
<b>Model Portfolios</b>		
SFP Balanced Portfolio	-3.78%	-2.40%
Non SFP Std Balanced	-4.03%	1.33%

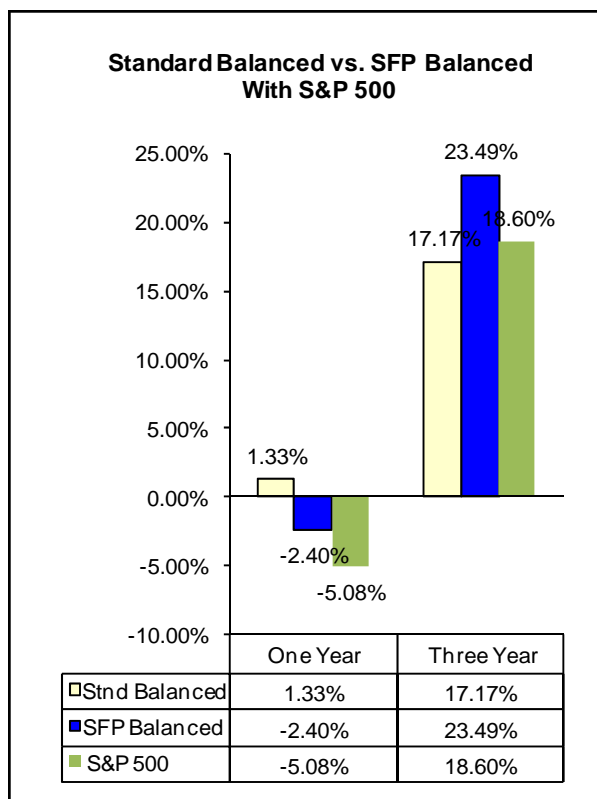
The sun is finely peeking through Seattle's grey skies. The trees ravaged by the winter storms are again starting to show life and the daffodils have once again returned, albeit later than usual. As the days become lighter and longer, it is once again easier to remember why people live here.

Unfortunately, such a heartening trend isn't the case with the stock market.

As measured by the S&P 500, the market has had its worst quarterly showing since 2002, falling nearly ten percent in one quarter. This extends the previous quarter's losses. The financial news has been filled with stories about a credit crisis, mounting mortgage losses, the failure of one of the country's largest investment banks, rising energy prices - will the price of gas ever go down? - a weaker dollar, and our Federal Reserve Bank trying to keep it all together and save us from recession. But that said, our portfolios have not fared too poorly.

The SFP Balanced Portfolio is down 3.78 percent for the quarter, slightly better than the Non SFP Standard Balanced Portfolio and much more reasonable than the S&P's slide. The one year numbers are similar, with our balanced portfolio down 2.40 percent while the S&P 500 was down 5.08 percent. This is what we would expect from this portfolio. In times of a down market, the conservative bonds that make up forty percent of this model portfolio protect us against much stiffer losses suffered by an all stock position. The flip side of this is that of course in up markets, we naturally don't expect to gain as much.

Looking at the actual numbers paints a different picture. This quarter we included the S&P 500 to our performance comparison chart on the left. (We think the green adds a nice touch this spring.) The left side of the graph shows the one-year numbers. As mentioned, you can see that the SFP Balanced portfolio was down roughly half as much as the S&P 500 (although significantly underperforming the Non SFP Standard Balanced Portfolio). But for the three-year period on the right, the portfolio not only captured the returns of the S&P 500, it actually exceeded them. In light of the fact that this portfolio has exceeded the returns of the S&P 500 in the up years, something we don't really expect, it was nice to see the downside protection this last quarter, something we do expect.



We know this might seem somewhat irrelevant given your own personal performance reports for the quarter. All losses are always hard to accept. Looking at the bottom line and the loss in value can be discouraging for those of us that are saving and worrisome for those who are deriving income from their portfolios. This is understandable, because frankly, we've gotten comfortable with low volatility in the past few years.

The last two to three years have been unusually stable in terms of quarterly returns. You could count on almost all the quarters during that period showing a return of 3+ percent. But that kind of continual advancement is historically far from the norm when it comes to the markets. It may be difficult to remember, but we have all lived through unpredictable markets before, and not so long again, either. Between 1998 through 2002, we had **20 months** that showed losses or gains of more than 6 percent. And that includes a single month, the dismal August 1998, with a loss of more than 15 percent.

During times like this, there is a tendency to get off track, to stop investing. We might let cash build up in savings accounts or decide to put money into tangible assets such as a house and property, or worse, start selling stocks due to fear. While the market can always continue to decline, it is just as much of a mistake to run from the current gloom as it is to get caught up in the euphoria surrounding inevitable bubbles. In either case, the sensible, disciplined course is the most likely to win at the end of the day.

Let's go back to August 1998. Yes, that's a hurtful loss of \$150,000 in a \$1 million portfolio in just a month. But investors who held steady enjoyed an overall year that was **up 24 percent**. And while it's true that the first quarter of this year has been down, we can take another lesson from the first quarter of 2003. That market was also down for the first quarter, but the entire year showed a huge annual return. Of course, I'm in no way predicting a huge annual return this year, but I use it to illustrate the point that no one can predict the course of the markets over a year.

As markets went up, this newsletter has never shied away from talking about downside. In October of 2004, we stated that residential real estate returns were not sustainable. When we could not find a market segment that was losing money, we pointed out how rare this is and cautioned against complacency. When we talked about our goal of capturing market returns, we have pointed out that this also meant capturing downside returns.

Now that the market has gone down, let's look at why we invest in the first place. For the 82 year period from 1926 through 2007 (yes, this includes the Great Depression) the stock market (CRSP 1-10 Total Market Index) produced positive returns during 57 calendar years. For the 78 overlapping five-year periods, 61 periods were positive and for the 73 ten-year-periods, 66 periods were positive. During this time a \$10,000 investment in today's dollars would have grown to \$2,258,400 (or a whopping \$26,570,000 without the inflation adjustment). This compares with just \$60,000 for Five Year Treasury Notes and \$17,100 for One Month Treasury Bills (similar to a bank CD).

And really, the recent higher volatility is to be expected and desired. You want risk since that risk drives expected returns. Without the volatility, the stock market would have no risk - and **no return**.

So please remember during the grey short dark rainy days in the investment markets, that the days of sitting on the water and enjoying the long warm and beautiful days with a thousand shades of green that will eventually come.

Warmest regards,

*Brian J. Skaggs, CFP*

The information in this newsletter should not be construed as investment advice. Investment advice is only given in the context of individualized interactions that ideally result in the development of a continually evolving financial plan. \*Total returns as measured by the performance of associated DFA funds - advisor fees not included in strategy performance. Advisor fees are subtracted from model portfolio performance at 8.3 basis points per month. This information is believed to be reliable, but we do not guarantee the accuracy of the information. **Past performance is not an indication or guarantee of future performance.**