

## Investment Perspective

Third Quarter 2009

“Emotions are your worst enemy in the stock market” - Don Hays

SFP Core Strategies*	Quarter 3	
	2009	One Year
US S&P 500	15.54%	-6.60%
US Large Value	21.95%	-9.53%
US Micro Cap	19.31%	-8.84%
US Small Value	26.83%	-7.41%
US Equity Real Estate	33.83%	-27.55%
International Large Value	24.26%	5.45%
International Small Cap	20.40%	11.03%
International Small Value	24.38%	14.72%
International Real Estate	28.61%	-8.83%
Emerging Markets	21.57%	15.39%
Emerg Mkts Small Cap	23.53%	33.59%
Emerging Mkts Value	24.79%	26.11%
Ultra Short Fixed Income	0.59%	4.44%
Shrt/Inter Global Fixed Inc	2.41%	7.77%
Inflation Protected Sec	3.36%	5.55%
<b>Model Portfolios</b>		
SFP Balanced Portfolio	13.92%	2.71%
Non SFP Std Balanced	10.34%	1.32%

An old Wall Street adage is that anyone can make money when the stock market is going up - it's in troubled times that investors need the expertise of a good stock analyst on their side. The recent bear market certainly tested the adage, and after reviewing the quarterly results, we'll see how it held up.

First of all, it was truly a great quarter for the financial markets. Our last couple of newsletters talked about increased expected returns that come when investors grow fearful and how historically great returns become available to investors during the final chapters of recessions. While we try never to count our chickens, it does appear this pattern is repeating itself.

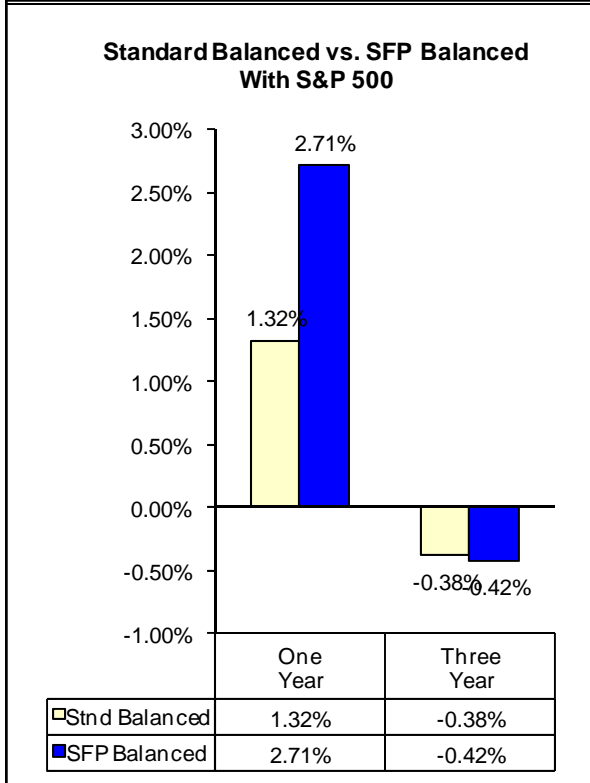
The most widely used gauge of overall U.S. stock performance is the S&P 500. This index of the five hundred or so largest stocks rose nearly 16 percent for the quarter, bringing its year-to-date total to just under 20 percent.

Smaller companies and international stocks fared even better, with most of our strategies up somewhere in the 20 to 25 percent range. Real estate securities, both U.S. and international, topped the list with returns of around 30 percent. These significant gains have left many strategies and our SFP Balanced Portfolio with one year gains.

The bond side has also been nice. One year returns range between about 4 and 8 percent. That's not too bad for conservative issues. (*Please see the performance chart .)*

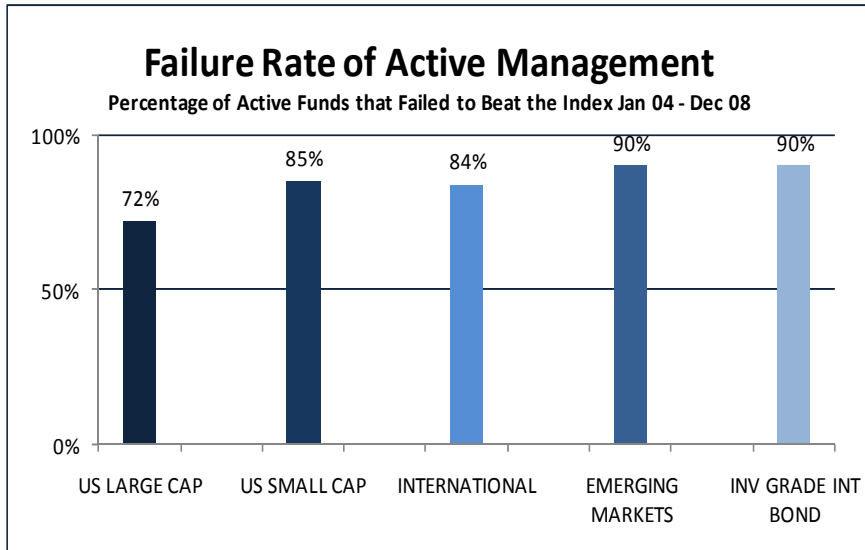
On a relative basis, we are once again outperforming the Non SFP Standard Balanced Portfolio. For the one year period, we have gains of 2.71 percent, while the standard portfolio was up 1.32 percent. The additional return was due to the heavier weighting to small, value and overseas stocks. These weightings caused underperformance on the way down and now they are adding to returns. For the three year period, both balanced portfolios are now close to breaking even with very similar returns. It's not too bad considering the turmoil in the markets. (*Please see the comparison graph.*)

So how did the old adage from Wall Street turn out? Standard & Poor's, a leading provider of mutual fund information and analysis, regularly looks at active fund performance in their Indices Versus Active Funds Scorecard (SPIVA Scorecard). Simply put, they measure whether active mutual fund managers actually add value. Remember, these managers are the best and brightest. They are armed with large research budgets and they comb the universe looking for the best investment ideas. These are the people CNBC turns to when they need the good stuff, the inside track, what the smart money is doing. But what we learned, essentially, is that they did lousy.



According to the study, 54.3 percent of active U.S. large cap mutual funds failed to outperform the S&P 500 during 2008. That's right, an index that is forced to hold a basket of stocks without regard to investment prospects or market conditions, once again beat most of the so called experts. If troubled times is when good stock analysts are needed most, then surely 2008 would have been their moment to shine.

So maybe a one year time frame is unfair. How about the years from 2004 to 2008, a period when the S&P 500 lost an average of just over 2 percent per year? Sad to say, during this period, 72 percent of active U.S. Large Cap funds did even worse. Other market segments had even poorer results. Please take a look at the chart below showing the failure rate for the five years across the major stock market categories.



As can be seen, the large cap failure rate is not as bad as most areas. In a statement from Srikant Dash, the global head of Research & Design for S&P, he declared, "the belief that bear markets strongly favor active management is a myth." This is quite a pronouncement coming from a company that profits handsomely from providing information to those looking to buy active funds.

While we can agree that many investors need guidance and professional help most during troubled times, we might add that they just better look out from whom they get it.

On October 10<sup>th</sup> of last year, Skaggs Financial Planning, LLC sent out a letter to all clients. With the market down around 40 percent, the so-called experts of all stripes were filling the airways with panic. Our letter discussed the situation and outlined a few options. The first was to sell and run for cover, the second was to do nothing and the third was realigning portfolios by putting more money back into stocks. We recommended the last option.

For about five months that followed, the market continued to be volatile with most moves to the downside. It was tough and disheartening. These were not just paper losses. Goals and hopes had to be adjusted, and there was no end to the carnage in sight. Together, we stuck to our guns and repeatedly rebalanced as the market declined. We were not speculating that the market would have a big move up or that stocks were undervalued, we were just sticking to plans that were laid out well before the trouble started. We did not give into fear or bury our heads in the sand. We did not give into ego, believing we could pick the winners and avoid the losers. We just stuck with the disciplined approach we talk so often about.

Now that it seems we can finally breathe a sigh of relief, I hope you give yourselves a well deserved pat on the back. We hope our resolve is not tested again soon.

Have a safe and joyous holiday season.

Sincerely,

*Brian J. Skaggs, CFP*