



Monthly Market Monitor

February 2009

Words of Wisdom

I will tell you how to become rich...Be fearful when others are greedy.
Be greedy when others are fearful. – Warren Buffet

This is one of my favorite quotes since it underlines my belief that although these may be difficult and fearful times, it may also be a financially rewarding time to be greedy. Systematic investing is the easiest way I know to continue to buy mutual fund shares (at currently very low prices) and continue to contribute to our financial futures.

To help you understand the impact on your portfolio of systematic investing I have included an article from Oppenheimer Funds on dollar cost averaging. I am here to help you with knowledge and guidance. If you would like to discuss setting up a systematic investment program on your account, or for a complimentary portfolio analysis, call me today at (209) 444-3354.

Potential Rewards of Dollar Cost Averaging

Investing can be very emotional. When the market is up, people tend to pour their money in. When the market is down, many investors “take their money and run.” Talk about counterproductive. Regular investing—also called “dollar cost averaging”—instills discipline to the process. If you have \$1,200 and invest it all at once, depending on where market prices go, you could be ecstatic if the shares bought at \$10 suddenly go up to \$14. But, you could be shell shocked if the price goes to \$5 and become paralyzed into not investing again. Whether the market is at a high or a low—or anywhere in between—dollar cost averaging keeps you investing.



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Automatic investment plans, whether through your employer or one you set up, are an easy way for you to take advantage of dollar cost averaging. Systematic investing does not assure a profit and does not protect against loss in declining markets. Investors should evaluate their long-term financial ability to participate in a systematic investment plan. The latter part of 2007 and 2008 will likely be remembered by many as a time filled with great uncertainty and volatility in the global markets. But, remember, investing regularly is a smart way to hedge against uncertainty. Simply put, it's not **WHEN** you invest, it's **WHAT** you invest. Many investors know there are two phases of investing: accumulation and distribution—or loosely put: building up and using up. During the accumulation phase, the primary goal is to build up shares. In our chart, we show that if a hypothetical investor makes a lump sum investment of \$1,200 at \$10 per share, the investor would have 120 shares. If the investor opts to dollar cost average \$100 per month for twelve months, the portfolio would have more shares—144. These may seem like small numbers, but if you build a retirement nest egg over decades, it could mean the difference between being able to sell 12,000 shares versus 14,400. Dollar cost averaging works especially well in volatile times. Making investments in a fixed dollar amount at regular intervals buys more shares when prices are lower and fewer shares when prices rise. So, over time dollar cost averaging may lower the average price per share paid and can help smooth out the effects of volatility in a portfolio. In our example, the lump sum investor paid an average of \$10 per share while the one who bought shares monthly paid closer to \$9 per share. Dollar cost averaging isn't just for novices—this shrewd portfolio-building method is great for seasoned investors as well.

Invest \$1,200 All at Once or Over Time?

Regular Investing May Smooth the Ride



Past performance does not guarantee future results. This chart is shown for illustrative purposes only and is not intended to represent the performance of any Oppenheimer fund. Systematic investing does not assure a profit and does not protect against loss in declining markets. Before investing, investors should evaluate their long-term financial ability to participate in such a plan.

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Market Indices ¹	January Change	Year-to-Date (1/30/09)
S&P 500	-8.6%	-8.6%
MSCI EAFE	-9.9%	-9.9%
Dow Jones Industrial Average	-8.8%	-8.8%
Russell 2000	-11.2%	-11.2%

Layoffs Dominate the News

Investors' natural hopefulness from the holiday season didn't carry too far into the new year as the reality of the economic times returned in January. Against the backdrop of additional requests for government assistance for several financial institutions, negative fourth quarter earnings releases and massive corporate layoff announcements, the global stock markets began the year with significant losses. The good news is that despite the heavy barrage of bad economic data, the major market indexes did not slip back below the old low levels of late November. Many take that as an important sign that the market had already anticipated these events and were looking past what was already accepted to be a dismal first half of the year for the economy. Most impressive to market analysts was the reaction to the unrelenting announcements of job cuts late in the month. With what may have been a one-day record of approximately 60,000 layoffs announced on January 27, the Dow Jones Industrial Index recorded slight gains for the following two days.

The gradual development of the new government's economic stimulus package also helped build some confidence late in the month. However, more investors were impressed with signs that the center of the problem, the dysfunctional financial system, remains a focus for governmental action. As many have been pointing out for months, any stimulative actions by the Fed (monetary) or the Congress (fiscal) won't bring long-term economic relief without improving the ability of banks to lend money. Despite the bailout money already provided, the depth of the bad loans that have to be written off continue to prevent many key banks from having the capital to make new loans. New proposals for the government to buy the bad loans and sell them later, similar to what the government did to solve the S&L crisis in the early eighties, are now seen as the real answer. Most experts still believe that any sustainable economic recovery has to start with a functioning global banking system, something that continues to elude financial experts and may still take lots of additional government money to solve.

Inflation Worries May Be Overdone

Despite signs of an extended recession, many investors worry about what the huge injection of government money will eventually mean to US and global inflation. Too much money in the system has sometimes led to rising consumer prices and higher interest rates which hurt fixed income investments. However, most economists believe that without using every tool available to solve the current "deflationary spiral" in the economy, including the government spending even larger sums, inflationary worries will be the least of the concerns for the economy. Deflationary trends can be more damaging and are much harder to turnaround than inflationary spirals. Most economists would trade some small signs of inflation now for the developing negative pattern of declining prices coming from shrinking employment and spending.² The all-inclusive price index for the first quarter showed consumer inflation *dropped* at an annual rate of 5.5% in the fourth quarter.² With the continuing signs of price declines in most world commodities, including oil, most experts see little sign that price increases will show up any time soon. For bond investors, investment decisions, at this point in the recession, should still be focused on quality concerns rather than higher rates from any eventual inflationary pressures.

1. Wall Street Journal, 1/31/09
2. MarketWatch, 1/31/09

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