WaldenCapital
ADVISORS

Third Quarter 2008

What a quarter this has been. Within the past month alone, we have witnessed historic events in the financial sector: Lehman Brothers and Washington Mutual collapsed, Merrill Lynch merged with Bank of America, and the government took control of Fannie Mae, Freddie Mac and AIG. The investment banking industry as we knew it no longer exists. Market volatility returned with a vengeance as we saw the Dow have some of its largest one day gains and losses and intraday swings ever. To create the perfect storm, we are also in the middle of a presidential election campaign with uncertainty as to who will be the victor and in what direction the winner will take us. At the same time, we have witnessed a lack of leadership and trust in our current government.

The credit markets are frozen and banks are unwilling to lend, even to each other, on fears that borrowers will not be able to repay the loans. As a result, businesses and municipalities are having trouble obtaining short-term financing to support operations and individuals are having a hard time securing loans for homes, cars and education. The media bombards us with rumors and speculation by pundits who paint worst case scenarios. Understandably, this creates an overall environment of fear, pessimism and panic, none of which is good for the stock market. I recognize that many of you are feeling uncomfortable about the speed and magnitude of the portfolio declines you are experiencing right now.

On the other hand, I would be remiss to not counter all of the above negativity with some of the positive signs that are out there:

1) Unlike during the Great Depression, we are seeing a massive policy response from the Fed, Treasury and world Central Banks as they continue to add significant liquidity to the global financial system. By doing so, they are increasing the short-term lending capabilities of banks which will ultimately help unfreeze the credit markets. They are also guaranteeing commercial paper, some money market assets and increasing bank deposit insurance in an effort to restore confidence in the markets.
2) Warren Buffett, perhaps the most celebrated investor of all time, decided to invest $3 billion in GE and $5 billion in Goldman Sachs. He stated that opportunities abound when others are fearful.
3) Stocks are trading at relatively low price earnings ratios making them attractive long-term investment opportunities, especially relative to fixed income securities.
4) Unemployment has risen but is still historically low (now 6% versus 25% during the Great Depression.)
5) Oil and commodity prices have come down from their highs earlier this year.

6) Cash holdings, which tend to peak at market bottoms, are historically high and are near the level last seen at the March 2003 market bottom.

Our economy and financial markets face great challenges right now. Conditions will improve over time as the credit markets heal and housing markets recover. Expect that this process will take time and the road may not be smooth. Most people would agree that the U.S. is currently in a recession. The economy has recovered after every one of the twenty-one recessions we have experienced since 1900. Additionally, as we have seen in the past, it is likely that the stock market will bottom well before the economy does.

At Walden Capital, we focus on developing and implementing investment plans to help you meet your short and long term goals. These plans are based on the time tested principles of asset allocation and diversification, but remember that there is no free lunch in the equity markets. Over time, investors have been rewarded for the extra risk they have taken in equities versus fixed income but over short term periods, there have been significant decreases. While we are experiencing a particularly steep decline at the moment, market timing has proven to be an unreliable way to invest over the long term because missing a few of the large gain days has greatly reduced returns (see enclosed chart.) Keeping your assets in an all fixed income portfolio poses the risk that your assets will not keep up with inflation, especially in low interest rate environments.

Having said that, it is important at a time like this to ask yourself whether or not your circumstances have changed such that we need to make an adjustment in your investment plan. It is important that we meet your current cash flow needs while balancing the longer term growth and recovery potential of your portfolios. If you are able to maintain a longer term focus, then one of the worst things you can do is experience the market downside, sell in a panic and then miss a rebound. Now is the time to muster the courage to stay focused on your long term objectives and not panic. For those of you in the accumulation phase, view this as an opportunity to buy in at lower prices.

As always, and particularly during these trying times, I want you to know that I am available to speak with you by phone or meet with you in person to discuss your goals, investment plan, questions or concerns. This month marks the second anniversary of Walden Capital Advisors. While it is hard to “celebrate” during these difficult times, I want you all to know how much I value the strong client relationships we have developed and the confidence and trust you have placed in us.

Jill