

October 2009

It has been one year since the weekend that shook the foundations of Wall Street and the global financial system – when Lehman Brothers collapsed, Merrill Lynch ceased to exist as an independent firm and AIG was taken over by the U.S. government. As I sit and write this letter now, the Dow is crossing 10,000 again. The last time it was at this level was October 2008. In just one year's time, the index fell 35% and then rose 53%. Who would have thought last year that it could fall so far so fast and, then again, who would have thought in March 2009 when the Dow was in the 6,500 range that it could ever rise so much so quickly? If ever one needed an example of just how volatile the equity markets can be, we are viewing it now with our own eyes. It is no longer just a theoretical possibility or something that occurred too long ago for us to remember.

Two years ago there was rampant optimism as the markets hit new highs. Concerns were set aside. By contrast, six months ago the market was overwhelmed by absolute pessimism. Today we are somewhere in between those two extremes. As a general rule, a certain level of healthy anxiety is positive – what gets investors in trouble is usually an excess of either optimism or pessimism. We have to remember that while there is still much uncertainty out there especially with continued job losses and low consumer spending, it is better to be debating the strength, durability and shape of the recovery (V, W or square root shaped) than whether or not the financial system is about to collapse.

In 1907, before our country had a central bank, U.S. financier J. Pierpoint Morgan single-handedly averted a banking panic among U.S. investors by injecting his own money into the banking system and persuading others to do the same. He was then asked, later on in life, what his best guess was for the direction of the markets and he answered: "They will go up and they will go down." A century later that is still the best answer to someone looking for a short-term market forecast. No one can predict market movements in the immediate period ahead. All we can do is understand clearly how much short-term volatility we can live with, adjust our portfolios accordingly and stay focused on the long-term horizon. No one likes volatility but for most of us it is the necessary price to arrive at our ultimate destination.

While it was a painful year, there are always lessons we learn during times like these:

- 1) As stated above, we are reminded of just how volatile stocks can be.
- 2) We recognize how important diversification is.
- 3) Many investors discovered that they are less comfortable with risk and volatility in their portfolio than they had believed.
- 4) We need to focus on what we can control – understanding our cash needs and thinking through how much risk we can tolerate to fund those needs.
- 5) Many people began rethinking retirement plans as a result of the upheaval.
- 6) Lastly, we are reminded that in today's world, we need to expect the unexpected.

The markets do not always go straight up and the presence of balance in your portfolio is more important than ever. We must maintain a healthy blend of optimism and caution because too much of either causes us to react in ways that ultimately are not helpful in achieving our long-term goals. It has been an eventful year, one that we hope not to repeat, but one from which I hope we all have learned something about ourselves.

Finally, I am pleased to announce that I have been selected as a FIVE STAR: Best in Client Satisfaction Wealth Manager for 2009. The November issue of *Philadelphia Magazine* will publish the list and a profile. I want to thank you for whatever role you had in my selection and let you know once again how much I enjoy working with you. Enjoy your fall.

