

## **PFA Commentary**

*March 2009*

We want to take this opportunity to comprehensively address many of the questions that we have been asked and offer our opinions on several issues that we currently face. This missive will be significantly longer than our usual commentary, but we feel it is warranted in order to properly address what we are all encountering in this difficult economic and investment climate.

We understand how painful the last several months have been for our clients. The assets that we manage for our clients represent years of hard work and sacrifice. To see the fruits of that labor and sacrifice be eroded is difficult for anyone to bear. We recognize this and take the responsibility of being entrusted with preserving and growing your assets extremely seriously. We feel this awesome responsibility daily and have certainly shared your pain in recent months.

We are constantly pursuing new and better ways of adding value to our client relationships, but perhaps the greatest value that we add is by helping our clients make rational, unemotional decisions during tumultuous times. It would be easy to compromise our approach during a chaotic and bizarre period such as this one, but adherence to our principles and values is the core of the significant value that we bring to our clients.

Thank you for your trust and confidence. We truly appreciate you and know that we only exist because of you.

### ***Tune Out the Noise***

One of the greatest struggles that many investors face is attempting to process all of the information that is relentlessly competing for our attention. In today's Information Age, it is almost impossible to avoid being constantly inundated with breaking reports on the latest consumer confidence survey, obscure manufacturing productivity reports, or housing inventory data in Michigan. It comes to us from newspapers, magazines, CNBC, the internet, and even on little TVs on the walls in elevators! Our instant access to information is wonderful in some aspects, but it also feeds frenzies and fuels volatility in the marketplace.

It could be argued that much of our current mess was exacerbated by politicians exploiting a crisis for political gain by painting an overly-negative picture and the media splashing fear-mongering headlines. Such an emotional tug-of-war takes its toll after a while and can detrimentally affect people's decision making abilities. Although it is increasingly difficult, we continue to encourage our clients to "tune out the noise." The distractions only take away from proper focus on your long-term goals.

### ***Another Great Depression?***

There are few things that get people's attention and stir their emotions like mentioning the Great Depression. We instantly think of black and white pictures of dust storms, long lines at the unemployment office, and farm foreclosures. Many news outlets have ignorantly compared what we are going through now to the Great Depression. Or have at least said that something is "the worst (fill in the blank) since the Great Depression" – which in some cases may be true, but it doesn't necessarily mean the two situations are similar. It is simply a ploy to stir emotions and generate interest. Compare the following current statistics to the Great Depression:

	<b>Great Depression</b>	<b>Current Recession</b>
<b>Real GDP (peak to trough)</b>	-30%	-2.9%
<b>Rise in Unemployment Rate (percentage points)</b>	+21.6 (peak rate 25%)	+3.6 (peak rate 9.0%)*
<b>S&amp;P 500 Index (peak to trough)</b>	-86%	-56% (10/07-3/09)
<b>Money Supply</b>	-30%	+9.5% (12/07-12/08)

*Source: Payden & Rygel*

\*projected figures

If you really want to know how our current situation compares to the Great Depression, ask someone who lived through it. They will vividly recall circumstances much more dire than what we are currently experiencing.

### ***Should I Sell?***

Yes – under two circumstances. (1) You should sell stocks if you have no interest in ever owning stocks again. If you are content with the current size of your portfolio and are willing to live off the interest from cash, CDs, and bonds for the rest of your life. (2) You should sell stocks if you believe capitalism and our financial system are broken beyond repair and our country's demise is inevitable. You should convert all of your holdings to gold and not tell a single person where you are keeping it.

We would not recommend either of these options to our clients. The most important factors to consider when contemplating a significant change in portfolio allocation is to ensure that it is a rational, non-emotional decision and that it is in-line with your goals for the portfolio. We understand how painful the recent stock market drop has been and how one might flee for safety because they feel as though they "just can't take it anymore." We also recognize that it is tempting to say, "I want to get out of the market until things cool down, then I'll get back in when things look better."

Both statements may seem logical during emotional and unpredictable times. However, both are emotion-driven, impulsive actions that have destructive consequences on building wealth. A recent study by Dalbar reinforces the detrimental effects of allowing emotions to affect investment decision making. The study concluded that from 1988-2007 the average stock mutual fund produced an annual return of 11.6%, while the average stock mutual fund *investor* realized an annual return of only 4.5%. The 7.1% difference is the result of investors' unsuccessful market timing.

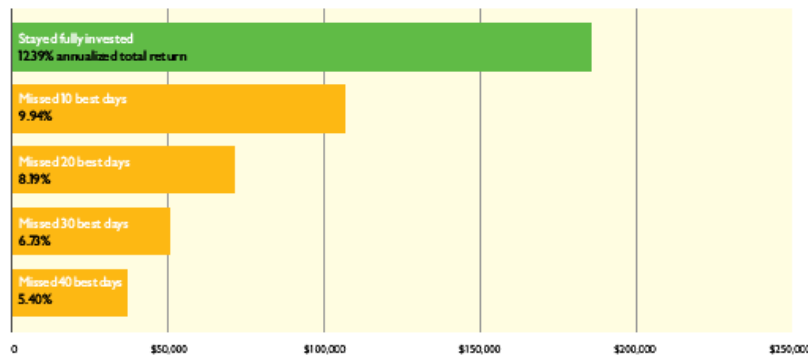
Simply put, market-timing doesn't work. No one has ever been consistently successful doing it. To successfully time the market, you not only have to get out at the right time, but you also have to get back in at the right time – you have to be right *twice*. You may hear crystal ball-wielding prognosticators say otherwise on CNBC, but they are not telling the truth. The truth is: markets are irrational creatures that cannot be predicted. Markets move up just as quickly as they move down, so those attempting to market time will ultimately end up selling low and buying high.

The following chart demonstrates how severely investors can be penalized for just missing 10, 20, 30, and 40 of the stock market's best days during a 25 year period:

## Time, not timing, is the best way to capitalize on the stock market's gains.

By trying to predict the best time to buy and sell, you may end up missing the market's biggest gains.

\$10,000 INVESTED IN THE DOW JONES INDUSTRIAL AVERAGE (6/30/83-6/30/08)



By staying fully invested over the past 25 years, you would have earned over \$78,000 more than someone who missed the market's 10 best days.

Data is historical. Past performance is not a guarantee of future results. The best time to invest assumes shares are bought when market prices are low.

Investors should carefully consider the investment objectives, risks, charges, and expenses of a fund before investing. For a prospectus containing this and other information for any Putnam fund or product, call your financial representative or call Putnam at 1-800-225-1581. Please read the prospectus carefully before investing.

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Staying invested through market ups and downs may not be as “sexy” as the exotic trading strategies that you read about or the guaranteed get rich quick method that your neighbor has so successfully used and bragged about – but it is the only thing that works consistently. Market timing is glorified gambling and will not succeed in building wealth over the long term.

## ***What Are We Doing?***

Before initially investing your portfolio, we discussed your goals, evaluated your tolerance for risk, and determined how much cash you needed in the short term. Given these parameters, we carefully designed your portfolio and allocated to four general areas:

- (1) Cash & Equivalents – which includes money market funds, CDs, and short-term bonds and is designed to provide for your short-term cash needs.
- (2) Fixed Income – which is comprised of intermediate and longer term bonds and will preserve principal and provide current income.
- (3) Growth Oriented Securities – which includes assets that may be volatile over short term periods, but will provide capital appreciation over the long term. This long term growth will enable you to maintain your standard of living even as the cost of living increases over time.
- (4) Market-Neutral Assets – Recently, we began incorporating a fourth element into many portfolios. We introduced “market-neutral” assets that allow investors to make money irrespective of the stock market’s ups and downs. These innovative securities reduce the overall risk of the portfolio while still providing equity-like returns.

The portfolio that we have designed for you is tailored to meet your personal needs and goals. Over time, as your needs and goals evolve, so too will your portfolio and we will make changes accordingly. For example, as you near the point where you will be relying on your assets to provide for living expenses, we will increase your fixed income allocation, reduce the growth oriented assets, and begin setting aside cash for near-term needs.

While we never seek to time the market, we may occasionally overweight certain areas when compelling opportunities present themselves. We have done this over the last few years by adding municipal bonds to certain portfolios and overweighting sectors that may outperform. We have also added the market-neutral Structured Notes in the last year and all three investments have outperformed the stock market by a wide margin. As of this writing, the Currency Harvest and X-Alpha notes are both up more than 3% in 2009. We are currently in the process of designing another Structured Note that we are confident will provide equity-like returns (or better), while minimizing risk.

*Adhering to your portfolio allocation and long-term plan during difficult periods is essential for ultimate success.*

## ***A Case for Optimism***

While we are certainly disappointed by the recent economic downturn and the poor performance of the stock market, we believe there is no doubt that, as Warren Buffett recently said, “America’s best days still lie ahead.” Home values will once again increase, unemployment will revert to its long-term average of 6-7%, business and personal lending activity will normalize, the US Gross Domestic Product growth will again be robust, and the stock market will build trillions of dollars in wealth for investors.

It is essential to maintain focus during difficult times such as these, despite ample distractions. We would encourage you to spend your free time with those you love and doing things that you enjoy doing. Leave the worrying over the daily ups and downs of the stock market to us! It is important to maintain some perspective: our current economic difficulties should not be mistaken for another Depression – no matter what the media tells you.

What we have endured recently is painful, but recessions and bear markets have occurred many times in our country's history. We have persevered before and we will persevere again. We should remember that many of the greatest gains in stock market history have occurred immediately following recessions and bear markets. This is not the time for investors to be on the sidelines or trying to time the market. We don't know whether the next 10% or 15% move in the market will be up or down, but we do know that the next 100% move will be UP.

Please contact us at (972) 770-4800 if you would like to schedule an appointment to discuss your portfolio.

Sincerely,

Perryman Financial Advisory, Inc.