



MEMO

Date: January 7, 2009
From: Jonathan D. Weir, JD*
To: WFR Clients and Friends
Subject: Fourth Quarter 2008 Economic Trends

2008 proved to be a most dramatic and trying time for world markets and investors. Years of rising home values emboldened both borrowers and lenders to believe the increases would never end. Then, housing prices began to drop. At first, as is usually the case, those companies and industries with the most leveraged exposure were punished. As the year wore on the problems spread.

More and more hedge funds, banks and other companies came forward revealing losses. As suspicions grew, banks became unwilling to lend and the deleveraging accelerated. As the credit crisis spread from industry to industry both credit and equity markets worldwide displayed some of the highest volatility levels in history. As asset prices dropped, more leveraged players became forced sellers leading to a downward spiral.

Late in the year at least some encouraging signs emerged. Unlike in some previous crises, U.S. and world governments acted broadly to unfreeze credit markets. The Federal Reserve acted swiftly to cut short-term interest rates to near zero. The Treasury revealed several novel liquidity facilities designed to increase willingness to lend. While it is too early to tell the overall effectiveness of these measures, credit spreads have recently begun to show signs of recovery.

Equity prices, while weathering a dreadful period showed at least some positive signs late in the year. After a crushing October and most of November, equity markets rose strongly, though leaving major averages still deeply in the red for the year. Famed investors Warren Buffett and Jeremy Grantham have made positive statements about equity values. While it is too early to tell if they are correct, this is encouraging.

<u>% Return as of 12/31/2008</u>			
<u>Equity Indexes</u>	<u>4th Q</u>	<u>1 Yr</u>	<u>3 Yrs</u>
S&P 500	-21.94	-37.00	-8.36
Russell 2500	-26.25	-36.79	-9.37
MSCI EAFE	-19.90	-43.06	-6.92
Emerging Market	-27.56	-53.18	-4.62
DJ Wilshire REIT	-39.95	-39.20	-11.99
<u>Bond Indexes</u>			
TIPS	-3.48	-2.35	3.06
Aggregate	4.58	5.24	5.51
Governments	8.05	12.39	8.11
Mortgages	4.34	8.34	6.81
Intermediate Credits	4.03	-3.08	2.03
Long-Term Credits	8.16	-3.92	0.99
High Yield	-17.88	-26.16	-5.59
Municipals	0.74	-2.47	1.86
<u>Cash Equivalents</u>			
3-Month T-Bill	0.10	1.51	3.75

Even commodities that initially defied the sell-off eventually faltered. After rising dramatically in the first half of the year concerns over diminished global demand pushed prices lower. Oil, which traded as high as \$147 per barrel, fell to the mid \$30 level. While a negative for commodity producing companies, the fall in commodity prices will likely aid many companies' profits as well as bring relief to cash-strapped consumers.

Domestic Equities: In the face of the credit crisis, all equity indexes performed poorly. The S&P 500 index lost a painful 21.94% for the quarter and 37% for the year. Smaller stocks did not escape the damage. The Russell 2500 index posted a 26.25% loss for the quarter and a 36.79% loss for the calendar year.

International Equities: Foreign stocks suffered as well. The MSCI EAFE index which measures the performance of developed overseas markets suffered a 19.9% loss for the quarter and was down 43.06% for the year. After a multi-year run, emerging markets, which are often reliant on commodity pricing, fell hard. The MSCI Emerging Markets Index dropped 27.56% for the quarter and 53.18% for the year.

Fixed-Income: Even the usually staid world of fixed-income showed uncharacteristic volatility during both the quarter and year. As panicked investors fled to safety, U.S Treasuries surged. Treasuries rose 8.05% for the quarter and 12.39% for the year. Other fixed income sectors didn't fare nearly as well. The Barclay's Aggregate, a mix of Treasuries and other types of bonds rose a more subdued 4.58% for the quarter and was up 5.24% for the year. Conversely, high yield bonds dropped 17.88% for the quarter and 26.16% for the year as investors shunned risk. TIPs also dropped modestly as declines in commodities fed fears of deflation. TIPs fell a modest 3.48% for the quarter and lost 2.35% for the year.

Real Estate: Due to real estate's usual reliance on mortgage financing, the credit crisis affected this asset class as well. Publicly traded REITs, as measured by the Dow Jones REIT index, lost 39.95% for the quarter. For the calendar year the index lost 39.2%.

2008 is a year investors would like to forget. It is tempting to lose confidence in the value of investing and in principles we have long held to be true in the face of all of the bad news. Even in the most difficult times this value and these principles have historically proven valid. We expect the volatility and headwinds will likely be with us for a while but we have and will continue to come through this. In some ways the world continues to change but our investment principles remain unwavering. We believe in mathematics, diversification and an appreciation of the stewardship of wealth.

Sound investment planning, of course, is centered on you, the client and your circumstances. I look forward to meeting with you in the near future to address your situation and any adjustments that might need to be made. In the meantime, please call with any questions you may have.

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