

Summer Sell-Off

Market Commentary August 16th, 2007 - Randy McGill, Branch Manager/Owner

At our annual meeting in February, I discussed my expectation that stock prices would experience some type of correction this year and that at least a ten percent decline was overdue. Today, that finally happened. While the Dow Jones Industrial Average (an index of thirty large U.S. stocks) closed down just 15.69 points at 12,845.78, the market's intra-day decline reached 405 points causing the Dow to join the S&P 500 (an index of 500 of the largest U.S. stocks) and the NASDAQ (an index of mostly smaller stocks) as major market averages that have now experienced at least a ten percent correction this summer.

So where do we go from here? In all likelihood, today's rally off the lows (triggered largely by short-covering in bank stocks) will continue for at least a short period. History tells us that markets often "retrace" 50% of their declines in a subsequent rally. Depending upon how much strength the market experiences during such a rally, prices may continue higher or may revisit their prior lows. I believe that the latter scenario is highly likely. Again, history suggests that markets rarely form a "V" bottom, i.e., straight down and straight back up. A "W" bottom is much more likely, wherein the markets "retest" their prior lows before advancing or declining even further.

Regardless of which scenario plays out, it is important to remain focused on your long-term objectives. Short-term trading (attempting to move in and out of the market at opportune times) is rarely a successful strategy for the small investor. In our case, our portfolios are highly diversified; they are not designed to be traded. If your time horizon is short-term, and you are uncomfortable with excessive volatility, then more of your portfolio should be positioned in income instruments, i.e., primarily high quality bond funds; less of your money should be positioned in equity funds. If your time horizon is long-term, then your portfolio should be constructed just the opposite. In either case, it is important to avoid the temptation to engage in emotional "decision-making". Such an approach will not be successful over the long-term.

So what should investors do now? Remain focused. The key to managing money is to make rational decisions for the long term and to avoid acting on emotion (*fear or greed*) in the short term. With our help you have formulated a rational investment strategy matched to your time horizon. Remain diligent. Do not deviate from your plan; do not allow the financial press to guide your decisions. Remember, *you are an investor, not a trader*. Like us, you have no way of knowing what the financial markets will do in the short-term; we simply cannot predict the future. What we do know from many years of history, however, is that over the long-term investments in equities have tended to outperform those in fixed income instruments. And as far as the short-term is concerned, remember that broad diversification across asset classes helps to lower the volatility of your portfolio.

If you have further questions, call us. We are here for you. Unlike those investors who choose to invest without the advice of a professional or who choose to take their advice from impersonal television commentators and newspaper columnists, you have us to call upon to answer your questions and address your concerns. On behalf of my colleagues and our entire staff, I look forward to the next time we speak.

The information contained in this report does not purport to be a complete description of the securities, markets, or developments referred to in this material. In fact, the information is not a complete summary or statement of all data necessary for making an investment decision and does not constitute a recommendation. Any opinions are those of Branch 6JY and not necessarily those of RJFS or Raymond James. Expressions of opinion are as of this date and are subject to change without notice. Inclusion of the DJIA, the S&P 500 and/or the NASDAQ market indices is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index.