

## **An Open Letter to the Community**

Recessions occur several times over each investor's lifetime. Generally we work through these periods pretty quickly and resume our previous investment strategies and daily lives. Less frequently, perhaps once in a lifetime, do we have a series of events that challenges our economic system and shakes us to our core. Our current crisis will bring about many permanent changes, many of which were long overdue. As a country, we need to save more, spend less, and shift from buying what we want to what we need. This process of deleveraging, which applies to families as well as to businesses, has slowed our economy to a crawl. In the long run, however, it will make us stronger and set the foundation for a wave of new economic growth and prosperity that is more sustainable. It will force businesses to be better and to offer products and services that will meet new consumer demands. For now, we are feeling the pain of an economy that seemed to be going along well but, in hindsight, had many fundamental flaws.

Many people have asked us how long it will take for the stock market to recover. Although much has been said and written on this topic, nobody knows how long it will take. Before we address this question, we need to determine whether further declines in the stock market are likely. While there is a chance that the recession will deepen, there are recent signs that lead us to believe the worst may be behind us. We believe the current economic damage caused by the recession has been priced into the market. While continued volatility is expected, we are beginning to see a small light at the end of a long tunnel.

In the meantime, we understand the powerlessness of watching your wealth decline creates a strong desire to “do something” about it – to take control and to end the pain. You may be wondering whether you should sell your portfolio and go into a cash position. This decision is based on many factors, including your ability and willingness to accept financial and emotional risk as well as never-ending uncertainty. Another factor to consider is how long it will take for your portfolio get back to the 2007 peak values if you go to cash vs. staying invested in a diversified portfolio. As of March 20, 2009, the Dow is currently at 7,278, significantly down from its record high of 14,164 on October 9, 2007. Assuming your portfolio is down by a similar percentage and you moved to cash and invested in U.S. 20-Year Treasuries at their current yield, it would take you nearly 20 years to get back to your October 2007 values. By contrast, assuming you stay invested in the market and generates level returns of 8% per year; it would take you just over nine years to recover, while at 15%, it would take you less than five years. (Please note that these returns are hypothetical. Your actual returns would be dependent on your own risk tolerance, objectives, and portfolio diversification.) The point is, even under this extremely optimistic example, it is going to take some time. All cash is probably not a great long-term solution. While we are not predicting how the markets may behave in the short term, we believe that stocks are attractively valued and that the economy will respond to government measures. We further believe, based on historical precedent, that it is possible to see a rally of 20-30% before concrete signs of sustained economic improvement are visible.

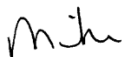
This is because the markets are forward-looking since stock prices primarily respond to expected *future* earnings of the underlying companies they represent.

Many of our clients have made a number of changes that are having a positive impact on their planning, eliminating unnecessary expenditures, increasing their annual savings rate, and working with us to update, adjust, and monitor their wealth planning.

Finally, now more than ever, we know that positioning portfolios appropriately requires discipline and logic. Going forward, as an investor, in order to achieve your long-term goals you will need high-quality defensive investments in case this recession turns out to be worse than expected. You will need assets that protect you against inflation, should the economy bounce back more sharply as a response to the government's stimulus plan. You will need money managers who can distinguish between the stocks and bonds that were justifiably taken down hard over the past year and those that are performing well as businesses but are currently undervalued by an illiquid stock and bond market. Over time, you will need to be invested in long-term assets and not just cash, so you can take advantage of the revival in financial markets that will accompany a rebound in the economy – a rebound that we believe is as certain in its occurrence as it is uncertain in its timing.

We see better days ahead and wish you success in weathering the storm and meeting your future financial goals.

Sincerely,



Mike Molewski  
President and CEO  
and The Molewski Financial Partners Investment Committee

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