



Market Perspective

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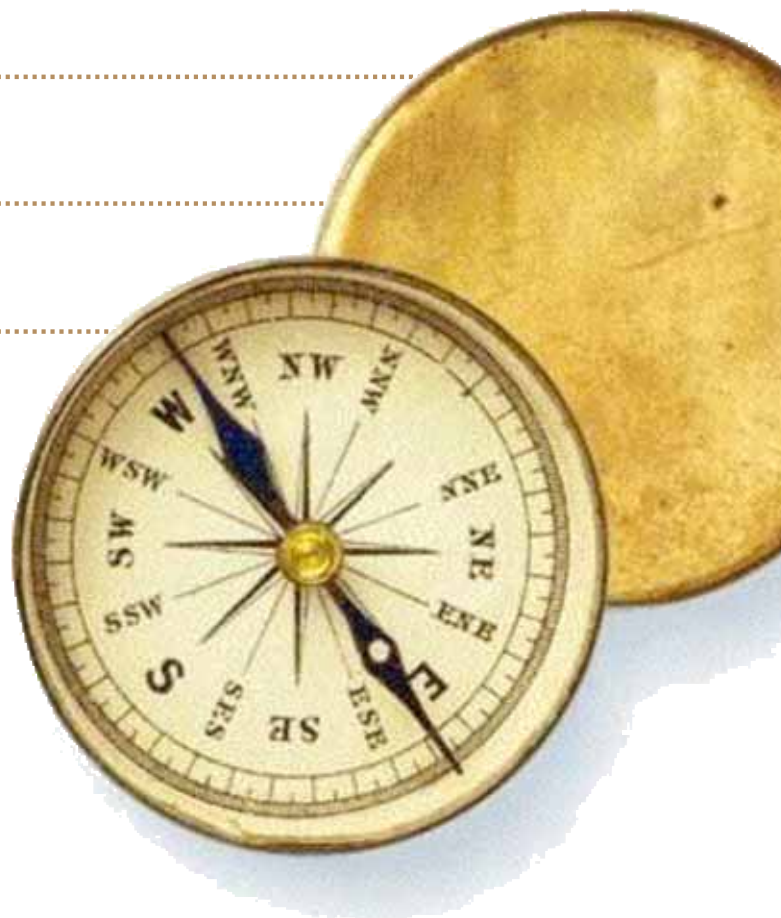
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Agenda

What Happened?

What Next?

What Can We Do About It?



What Happened? The Problem

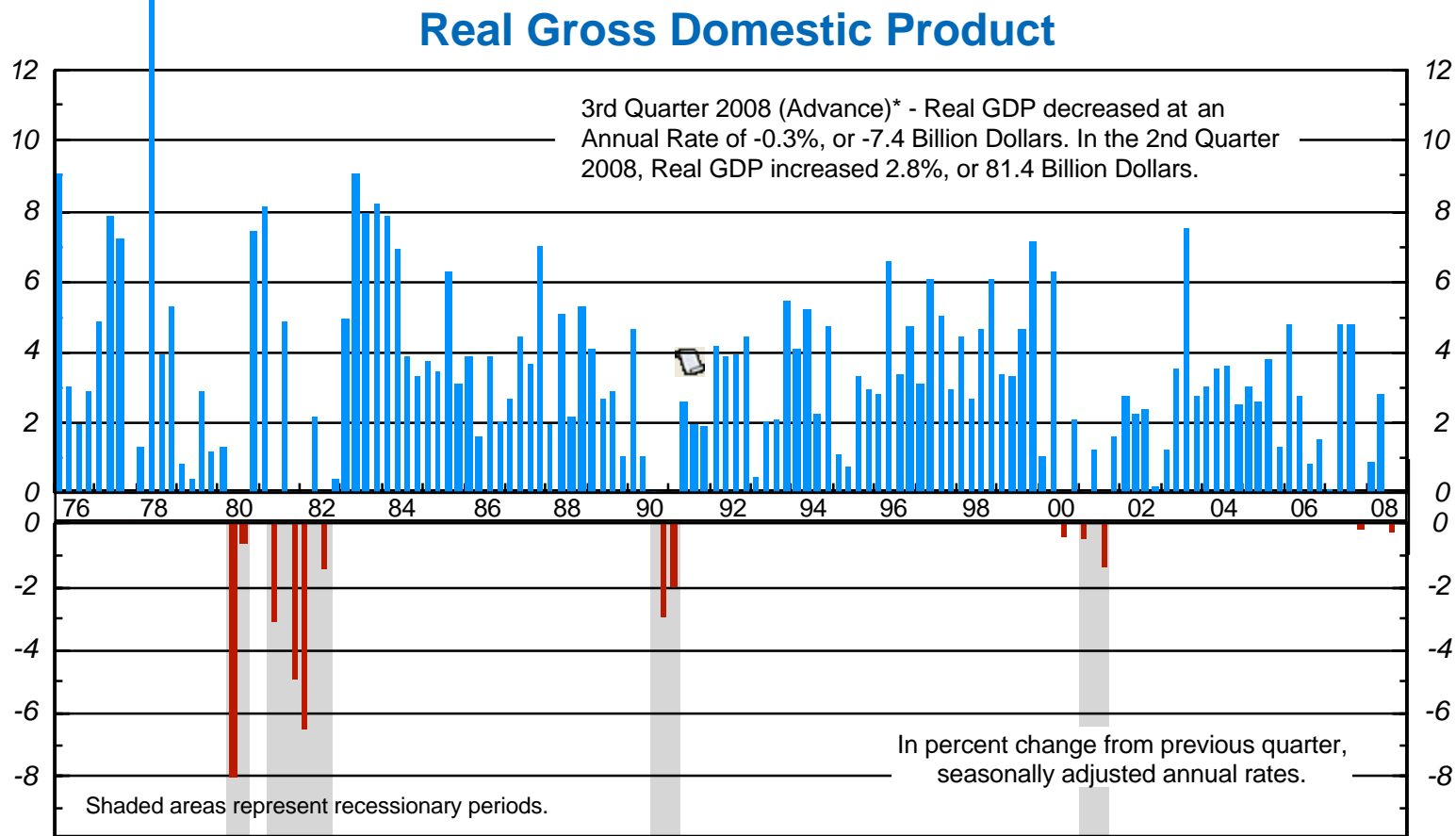
“Fannie Mae, the nation’s biggest underwriter of home mortgages, has been under increasing pressure from the administration to expand mortgage loans to borrowers just a notch below what our underwriting has required...”

**Excerpt from New York Times Article
– September 30, 1999:**

- 1. Since 2000, the U.S. consumer has taken on an **extra** \$2.50 of debt for every \$1.00 of new income.**
- 2. The global financial system has taken on over \$62 trillion of derivative transactions (Credit Default Swaps, etc.) that are unregulated and not reflected on balance sheets.**

What Happened? The Unwinding

- U.S. housing industry is contracting, Consumer is de-leveraging
- Global financial system is de-leveraging, This is all slowing down the **global economy**



*Data Released October 30, 2008

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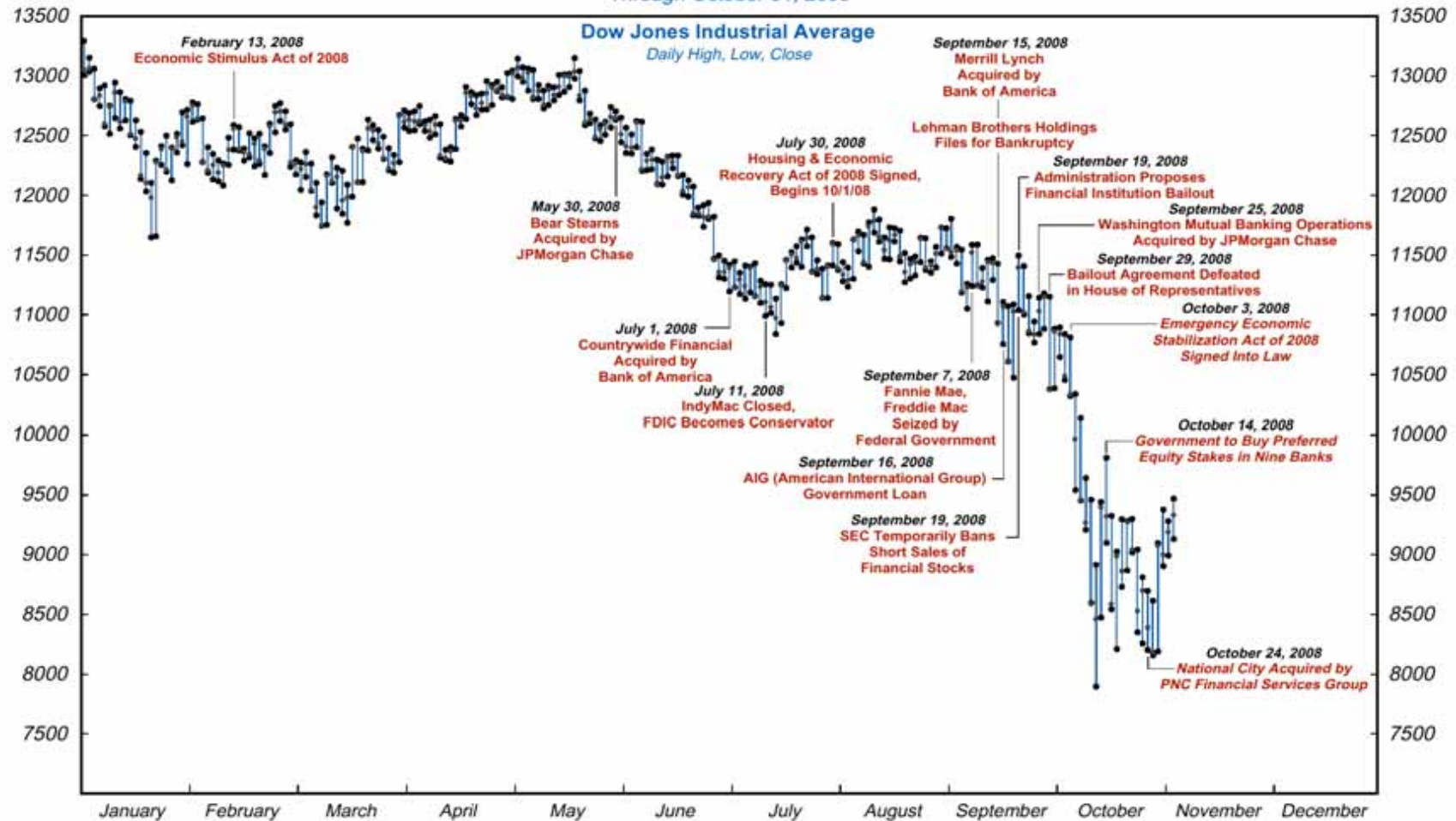
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What Happened? The Results

Market Total Returns	YTD	12 Months
Period Ending October 31, 2008		
S & P 500	-32.83	-36.08
Dow Jones Industrial	-28.26	-31.33
Lipper Intermediate Invest Debt	-8.43	-7.34
Lipper Money Market Average	1.91	2.67
Lehman 5 -10 Yr Treas	4.78	8.75

Financial Crisis of 2008

Through October 31, 2008



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What Next? Great Depression Obsession

	1929-1933	2007-2008
Unemployment	3%-25%	4.5% - 6%
GDP	-30%	-0.5%
Interest Rate Policy	Raised Rates	Lowered Rates
Trade Policy	Insular – taxes on imports/exports	No Change
Global Cooperation	No Cooperation	Coordinated Fiscal & Monetary Actions

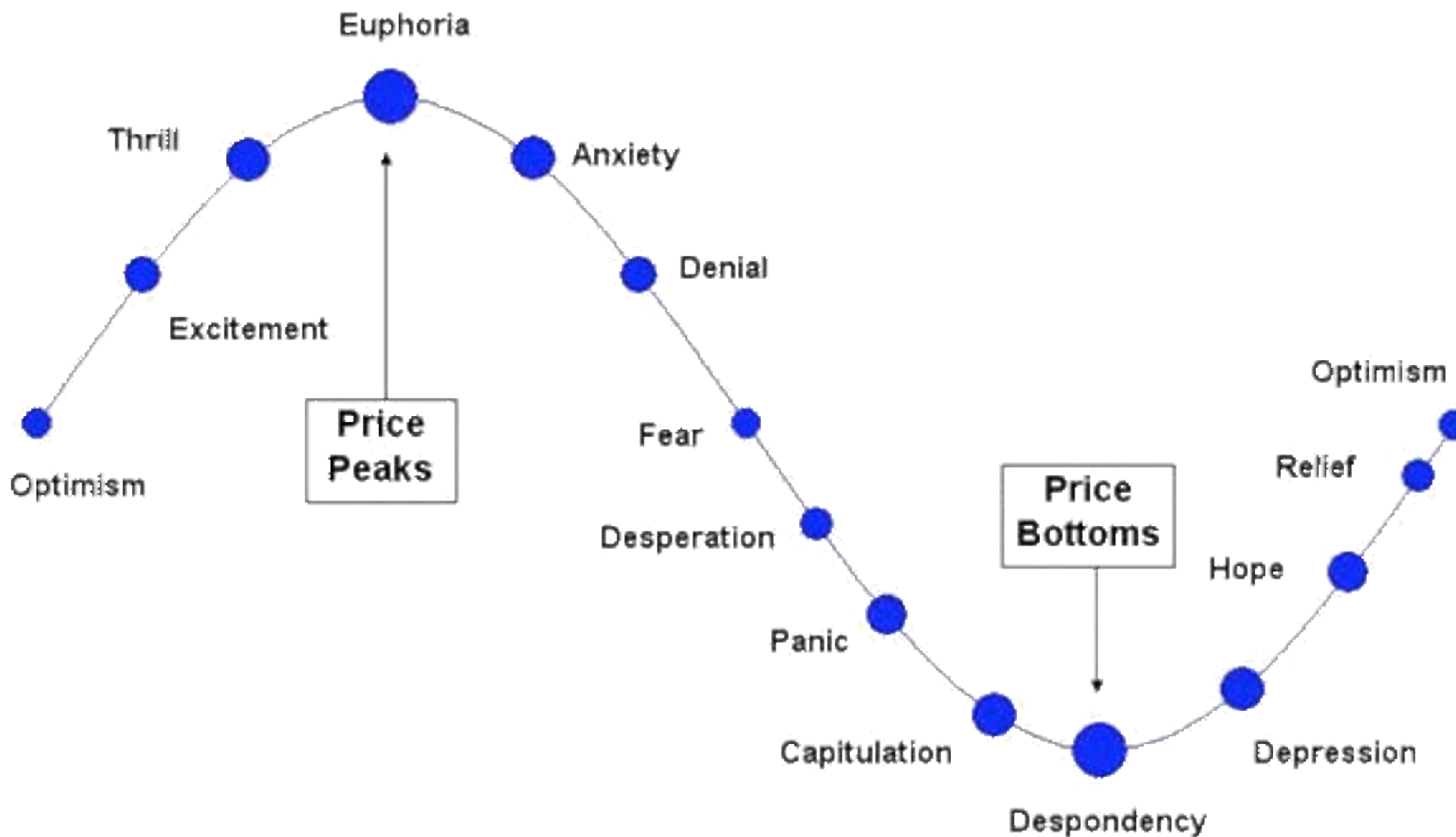
Sources: Bloomberg Finance, LLP, Financial Times, October 17, 2008

What Next? Recession Obsession

- **What is a Recession?**
 - 2 quarters of negative economic (GDP) growth
 - Or, when called by the National Bureau of Economic Research
- **How Frequent are Recessions?**
 - 3 per decade
 - 20 total since WWII
- **How Long do they Last?**
 - 10-month average

Sources: Bloomberg Finance, LLP, Financial Times, October 17, 2008

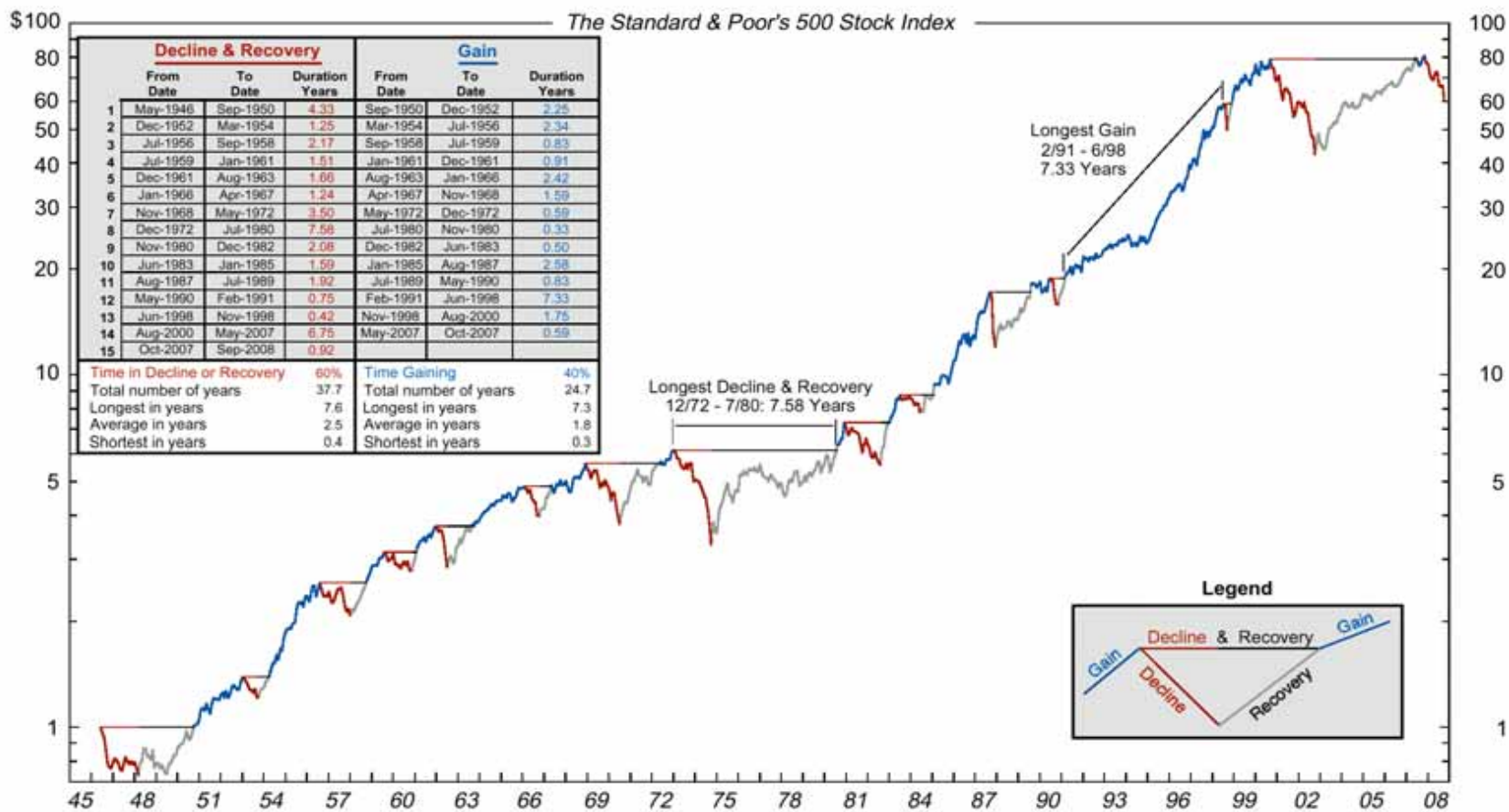
What Next? Cycle of Investor Emotions



Source: Based on the Grief Cycle model first published in *On Death & Dying*, Elisabeth Kübler-Ross, 1969

The Long Term Investment Cycle

Gain, Decline, Recovery - The Standard & Poor's 500 Stock Index



\$1.00 Invested 5/31/46 • Ending Value: \$60.73 (September 30, 2008) • Compound Annual Rate: 6.8%
 Data is based on capital appreciation, month end data, and declines of 10% or greater.

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What Should We Do About it? Process Trumps Emotion

Sentiment is Not a Good Guide

**“Fearing Fear Itself”
“Be Greedy When Others are Fearful”**

Five Prior “Everything is Horrible” Environments:

1. February 1975
2. May 1980
3. October 1990
4. March 2003
5. October 2002

**12 months after, the
average stock market
return was ↑23%**

What Should We Do About it? Process Trumps Emotion

1. “The Number”

- The level of liquidity that you need to stick with your long-term investment plan
- Also refers to debt-load

2. Diversification

3. Time Horizon Matters

- If you need the money within five years, you need to evaluate if you should be in stocks
- Bond maturities
- Lock-up periods

4. Discipline

- Biggest de-railer of long-term investment success is not sticking with your investment plan

Process Trumps Emotion

4. Discipline (cont.)

- Market timing does not work!



Sources: Returns from S&P Index Services, 3/08; calculations for chart made by Wells Fargo Private Bank, 3/08.
Past performance is no guarantee of future results.

Final Thoughts

Bear Markets/Bull Markets

Last Nine Bear Markets	Last Nine Bull Markets
Average 14 months in length	Average 68 months in length
Average decline of 32%	Average gain of 176%

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