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"Everyone has a plan until they get punched in the face."

Michael Tyson, Boxer

Dear Friends,

If you told us we would be writing to you so soon, our response would have been… Get outta here! But here we are. It seems that a 1,000 point down day merits a response. Email is the most expeditious way to deal with a plan going out the window and a very bloody nose. But fear not, we commit to hold this comment to one page, not easy for us.

What Happened?

First, throw the idea that anyone knows exactly what happened out the window. If seasoned investment people could foresee an event like this, it would not happen in the first place. With that said, it is fair to say that pre-conditions can exist which, taken together, can create an environment of materially elevated risk. Think here: dry timber, high winds, lightening and insufficient resources to fight fires on a massive scale. We attempted to lay such a scenario out in our massive Client Letter of a month ago and will avoid the temptation to quote ourselves (always tacky).

Functional Equivalents

Dry timber: Hyper low interest rates for an extended period of time to promote asset inflation and induce spending.
High Winds: Stocks do so well that they become very expensive to earnings making an eventual downturn inevitable.
Lightening: Despite the stimulus, the economic recovery is among the poorest in modern history. Growth flags.
Insufficient Resources: China, the world's 2nd largest economy appears to be going off the rails taking others with it.

Mispricing of Assets

Putting it all together in its simplest form, the relationship between risk and reward became both unattractive and, in our view, likely unsustainable. We were too early in arriving at this mispricing conclusion and began to modify the mix of assets between stocks and ultra short CDs and bonds well over a year ago. Over the course of this year, to the extent that individual portfolio circumstances permitted, we continued to reduce exposure to stocks to the lowest level in memory while building liquidity. This strategy has first helped us to mitigate a bit of the damage done in client portfolios by the stock market's collapse. At the same time, and more importantly, it gives us the resources to scoop up bargains as they present themselves in the days, weeks and possibly months ahead.

When?

We have previously referred to attempting to call a market top as a fool's errand; calling a bottom is worse. Stocks tend to be far more volatile on the way down. What we have seen over the past ten days is a perfect example of this theorem. We have assembled a list of perfectly lovely companies we would like to own, but all of them at lower prices than they trade today but not below the lows they traded very briefly (meaning literally two minutes or less) Monday morning. Patience and discipline will be required. There is clearly a risk that excess caution may cause us to miss the boat. Conversely, in some cases we may have the "opportunity" to purchase a stock more than once in the event the price continues to skid after our initial purchase.

In closing, we would like to say thanks for your forbearance as we attempt to navigate these tricky waters. We are up early and stay late during these challenging times and certainly welcome your calls as the heat gets turned up.

Warmest regards,

Steve Spence	Marcia Hull	Kip Acheson	Chris Klavins
Senior Vice President	First Vice President	First Vice President	First Vice President
Financial Advisor	Financial Advisor	Financial Advisor	Financial Advisor