

Please feel free to email any comments or issues that you would like to see addressed in future publications to:

sharris@StokerOstler.com

Inside this issue:

Unexpected the Expected



By Michael Halls, CFP®
Partner
mhalls@StokerOstler.com

“A thing long expected takes the form of the unexpected when at last it comes.”

-Mark Twain

I have three young sons who keep my wife and me busy, driving them in every direction to piano, tae kwan do or any one of several different sports. Periodically, you can find us trying to garner sympathy for having to bear the burden of being chauffeurs in our spare time, but the truth is we enjoy it. We all seem to have fun even if the treat is more important to them than the game itself or my son’s piano piece is two minutes and the recital lasts two hours. And as a bonus, it seems that over the years we have met and become friends with countless other parents and coaches.

It is often the case, when making small talk with another parent, that once we’ve finished telling each other the reasons our son is the best player on the team, the talk turns to what each of us does for a living. My career doesn’t usually generate anything more than an “oh, really.” However, recently it has been much different.

With the stock market volatility and declines of the past several months, it has been common for all of the “oh, really” parents to have many more questions than usual. The question I have been asked the most over the past two months is “where are you telling people to put their money?” It is immediately apparent when this question is asked, that the person has some idea about what I do, but not a good idea about how I do it. They are asking the question hoping they will get a gem that will

make them wealthy beyond their wildest dreams, thinking I have a pocket full of such gems, just waiting to hand them out. Their enthusiasm often fades quickly as I let them know that some of the greatest secrets to investing are hard work and discipline.

I haven’t had anyone just turn around and walk away yet, but from the looks on some of their faces, I think there were some who wanted to. The answer isn’t nearly as glamorous as the one they had hoped to hear.

As investment advisors, we develop a thorough understanding of the investor – their risk tolerance, goals, objectives and constraints. Through careful analysis we are able to develop an asset allocation that will help the investor meet their goals and objectives. This is captured in our investment strategy document —the Investment Policy Statement. We stick to the strategy and this discipline has served our clients well over the years. We do not jump in and out of the market based on short-term market movements. We only make changes to the allocation if: 1) there is a new asset class that may help reduce volatility or increase diversification, 2) a life event that necessitates a change, or 3) something that causes a change in risk tolerance.

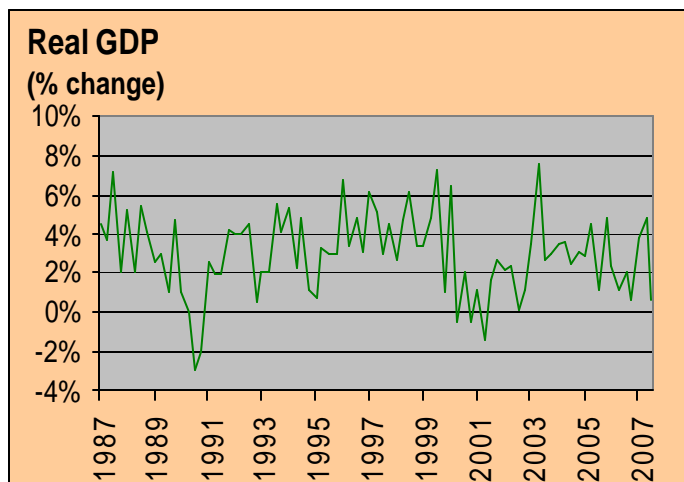
Mark Twain said “A thing long expected takes the form of the unexpected when at last it comes.”

Unexpected the Expected

(Continued from page 1)

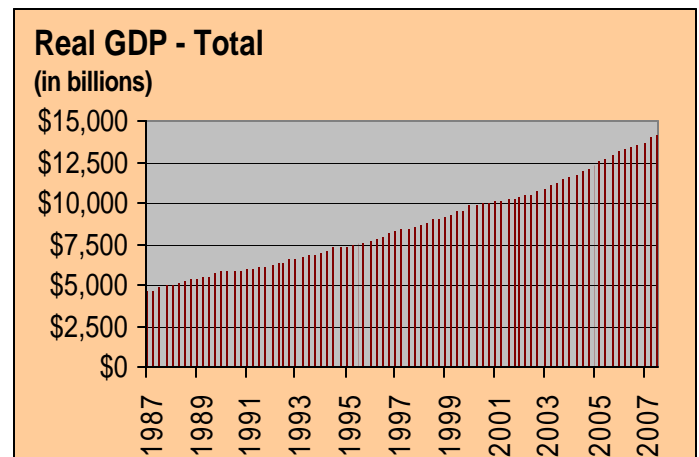
We know that a disciplined, consistent approach is the right approach. And often, for individual investors, as long as the markets are moving up, the approach is fine. It is when markets drop a little that they start to second-guess the strategy. They often feel helpless and a need to act. As investors, they feel like they should be making drastic changes to correct the flaw. But what is the flaw? We know that the economy is cyclical and that stock markets go up **and** down. If we aren't in a recession now, sooner or later we will experience one...and it won't be the last. The stock market is down, but will rebound. We don't know when or why, but at some point it will drop again. Applying Mark Twain's comment, we wait so long for the economy to slow or the stock market to go down, that when it does, we are surprised.

Whether we are surprised or not, sticking with your strategy is the right approach. It is right because our economy is resilient and versatile. Growth may slow and we may even experience a recession, but the economy will rebound. Most recessions don't last very long. The nine recessions since WWII have ranged from 6 to 16 months, with an average of 11 months.* Over the past 20 years we have been through two recessions. As you can see from the following chart, economic growth (measured by Real GDP**) fluctuates.



Source: Bloomberg (quarterly 1987 – 2007)

The chart shows growth almost as high as 8% in one quarter and as low as -3% in another quarter. From this chart you might jump to the conclusion that economically, we are about where we were in the '80s. Analyzing further, one realizes that even though some periods of growth were slow, they were still positive. The next chart shows the growth expressed in real dollars.



Source: Bloomberg (quarterly 1987 – 2007)

You can see that real GDP has almost tripled, even with two recessions in the mix. Even slow growth is good growth and eventually the economy will work out the kinks and things will pick up again.

Just like the economy, stock markets will also rebound. We don't know the exact point in time that the markets will hit their lowest point – maybe they already have. We do know that companies continue to make money, and eventually, the stocks of those companies will go up. We often say that the stock market is a voting machine in the short-term. This means that investors vote by buying and selling shares and often vote emotionally (some may argue irrationally). The stock market is not going to zero. Along the way, however, some companies will consolidate and some may even go out of business, but those remaining will become more efficient, make more money and their stocks will rise.

*Feldstein, Martin & Kathleen, *From Recession to Recovery*. The Boston Globe.

**Gross domestic product (GDP) is the total market value of all final goods and services produced in a country in a given year. Real GDP is GDP adjusted for inflation.

Unexpected the Expected

(Continued from page 2)

Since WWII the average bear market (stock market decline) has lasted about 16 months and resulted in an average market decline of -26%. The average bull market (stock market increase), on the other hand, has increased an average of 112% and lasted 45 months. Over time, the duration and magnitude of gains are significantly higher than the period length and extent of losses. This makes sense intuitively, otherwise, why would we invest in stocks?

So where does that leave us? We know that economic growth has slowed and that global stock markets have declined over the past 4 months. We knew that at some point both things would happen, we just didn't know when. Likewise, we know that both the economy and markets will rebound, we just don't know when. Generally, stock markets are a leading indicator that economic growth is picking up. This means that the stock market generally starts to post gains before any other indicators tell us officially that economic growth is beginning to pick up. The average return of the broad stock market (S&P 500) coming out of recession has been more than 19%.

Visit our website to discover more about Stoker Ostler Wealth Advisors' comprehensive financial planning and investment management services:



- Meet our team of professionals
- Learn more about our multi-disciplinary services
- Tap into a variety of resources

www.StokerOstler.com

So, we have something to look forward to. Anticipating this rebound in economic growth and the stock markets, we should stick with our strategy, or update our strategy to reflect our new circumstances or risk tolerance. And when things do pick up, we shouldn't be surprised, just as we shouldn't be surprised sometime down the road when the cycle happens again.



Arizona

4900 North Scottsdale Road
Suite 2600
Scottsdale, Arizona 85251
Phone: 480-890-8088
Fax: 480-890-8770

Utah

170 South Main Street
Suite 825
Salt Lake City, UT 84101
Phone: 801-579-0888
Fax: 801-579-0859

Stoker Ostler Wealth Advisors is an independent wealth advisory firm that provides financial planning and investment management services to high net worth individuals and their families. We are dedicated to helping clients achieve their objectives by building strong, lasting relationships based on integrity, performance and quality.

THE GREATEST COMPLIMENT YOU CAN PAY IS
THE REFERRAL OF FRIENDS & FAMILY.

Thank you for your confidence.