ADVISER INVESTMENTS

ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

June 27, 2008

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State of the Markets

The second quarter is rapidly coming to a close and for all the pain we're feeling in June, it's actually been a positive quarter for all but the largest companies. Yes, the Dow Industrial index is down 6.6% this quarter through June 26th and the S&P 500 index is down 3.0%, but mid-cap and smaller companies, and the NASDAQ Composite index, to name a few, are all up with the S&P 400 MidCap index up 6.0% this quarter and down just 3.7% for the year, and the NASDAQ 100 up 4.1% for the quarter, though it remains off 11.0% for the year.

The Fed ended its two-day meeting without touching rates, as expected, and noted greater worries about inflation than about economic growth, a shift in their thinking from earlier this year when they were in rate-cutting mode. The Fed's language to describe their stance revealed a prognosis for the increased threat from both inflation and inflation expectations, as well as their sense that the threats (high energy and food prices and historical lows in housing sales, prices and consumer confidence) to U.S. economic growth were diminishing. That's a close characterization of an economy that is in the process of stabilizing—a view that we share. But, that said, an economy that is in the process of stabilizing is a far cry from a stable economy; hence the heightened levels of volatility and uncertainty that continue to dog our markets.

The recent economic news confirms that, for at least the first quarter, things weren't as dire as had originally been predicted. The final numbers on first quarter GDP were actually a fraction better than originally reported, and in another report, existing home sales rose in May. Yes, the housing bubble has burst, prices have come down, and this is bringing out the buyers. While prices have fallen, the volume of sales of existing homes grew 2% in May. That's exactly the way a supply and demand economy is supposed to work, and it is working. Our economy is not broken, and consumers have not stopped consuming.

Overseas, Europe seems caught up in much the same morass; albeit running about nine months behind our own malaise, which suggests that slowing growth will hamper their markets over the next six months the way slowing growth has hampered our own over the past six months. Asia and Latin America continue to exhibit robust economies; but their markets (as they have always done) trade in sympathy and at a relative multiple to our own. While that means they've been losing a bit more than our own markets over the past nine months, it also means that when our economy and markets turn a corner, they'll likely lead the charge back up the hill—especially so given their solid economic footing.

What's happening now is nothing new for those of us who've invested through the '80s, '90s and even the current decade. This is nothing compared to the pain felt when the market tumbled in 2000, 2001 and 2002. In fact, one could liken the current turmoil to what happens when a giant motorboat spewing a large wake rumbles through the placid waters where small boats are sailing in a light breeze. If you'll allow the analogy, the light breeze is our very slow-growth economy, the little sailboats the companies and markets that make up our economy. The large motorboats have names like USS Financial and Debt Crisis du Jour. Their wake throws the boats around, some capsize and others are spun off course. But eventually the motorboats pass by, their wakes roll over the water, and calm returns to the point that the little sailboats can again begin moving in their desired direction. If the wind were stronger, then the damage would be less severe. Right now the winds are light, but as the GDP report shows, they are still blowing, providing locomotion for our economy.

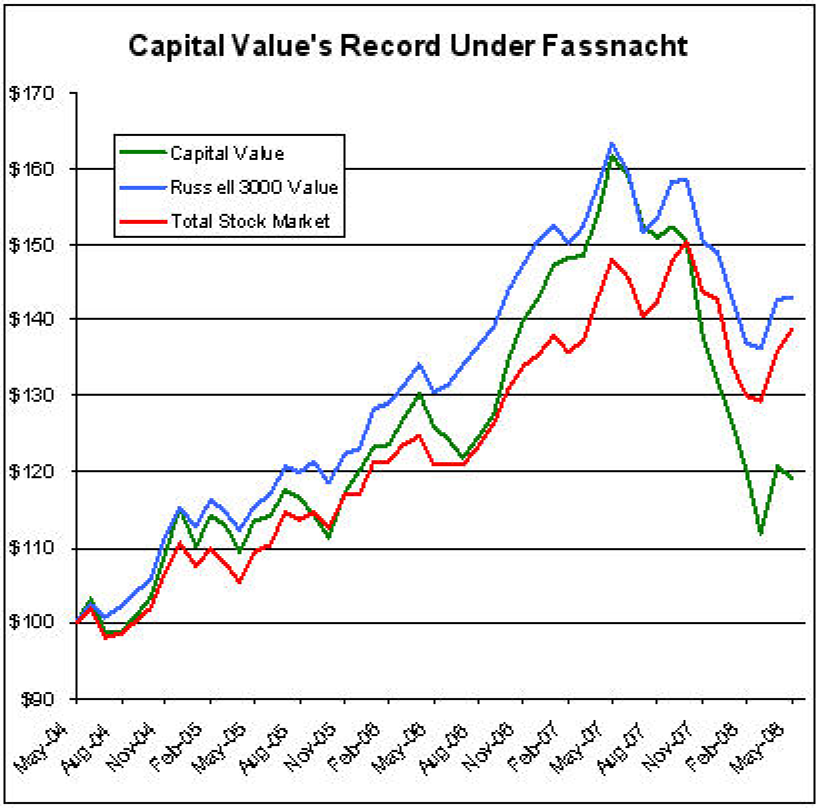
Changes Afoot

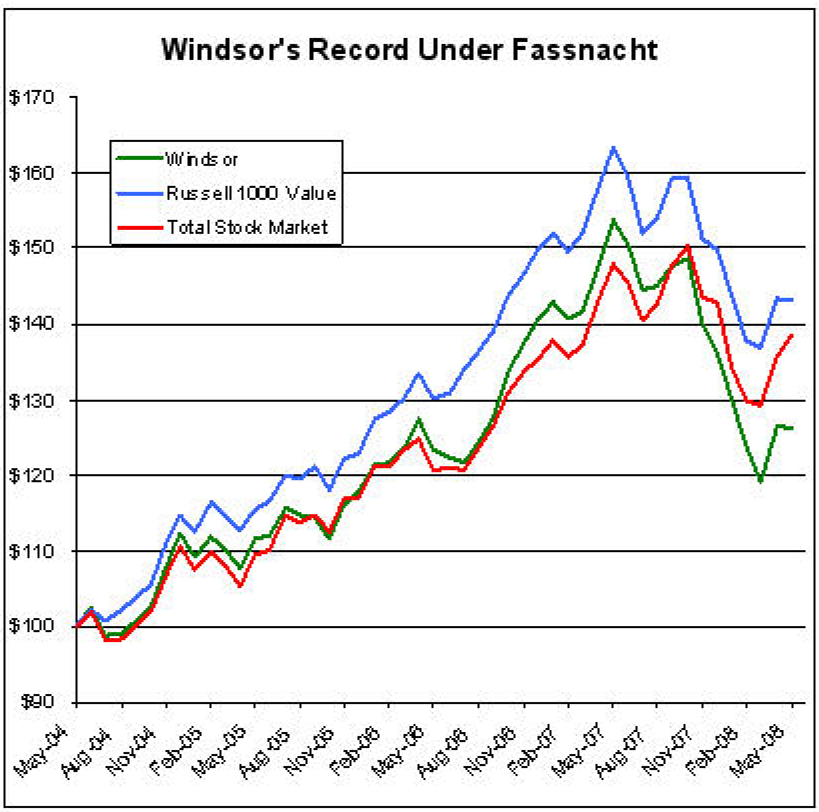
Vanguard has been on a tear this month, with new announcements seeming to drop every week—from manager additions, to manager changes, to new funds and reduced fees on some existing ones. Fidelity, not to be left out, also announced a manager change, as a 17-year veteran will be retiring next week. Read on to see what's happened with the firms in a busy June.

Vanguard Asks Wellington To Make a Change

On June 23rd, Vanguard announced that David Fassnacht of Wellington Management had been replaced as portfolio manager on Capital Value and on his portion of Windsor's assets by two new managers, also from Wellington. According to the *Wall Street Journal*, this change came at Vanguard's request, with a spokesperson quoted as saying, "we concluded that the funds would best be served with a change in portfolio manager within Wellington."

Fassnacht, 43, had been the sole manager on Capital Value and Wellington's portion of Windsor since former manager Chuck Freeman's retirement in June 2004, and was an assistant manager with Windsor since June 2001 and Capital Value since its mid-December 2001 inception. If you look at the charts below, you can see Fassnacht's record since assuming primary responsibility for the funds in 2004. In both cases, he was unable to match pace with his benchmarks—the Russell 3000 Value Index for Capital Value and the Russell 1000 Value Index for Windsor, and over the last year saw his charges drop off precipitously. (Although the team from AllianceBernstein that co-manages about a third of Windsor's assets must also bear some responsibility for underperformance there.)





Wellington has selected Peter I. Higgins, 47, to take over for Fassnacht at Capital Value. Higgins has been with Wellington since 2005, and has been in the investment management industry for over two decades. He's a senior vice president and partner with the firm and is also a Chartered Financial Analyst. He earned BS and BA degrees at the University of Pennsylvania and stayed nearby to pick up his MBA from the Wharton School at the University of Pennsylvania.

Over at Windsor, James N. Mordy, 49, another senior vice president and partner with Wellington, has assumed management responsibility for Wellington's two-thirds share of the fund's assets. He's been with the firm since 1985 and has been working on the team that manages Windsor for the last 25 years, so he is already intimately familiar with the fund. He earned a BA from Stanford and his MBA from the Wharton School at the University of Pennsylvania.

It will be interesting to see if the new managers can affect any kind of a turnaround at the funds, but until we see reason to believe more strongly in Capital Value and Windsor's long-term prospects, we'll continue to advise new investors to look to Vanguard's more promising value funds, such as Selected Value and Windsor II, for their portfolios.

Lucky Number Seven?

On June 12th, Vanguard announced that a team from Century Capital Management would be joining the crowded field of managers at Explorer.

Century Capital, a Boston-based firm, uses a fundamental, bottom-up investment approach, seeking to identify companies that will grow faster than the overall market. They typically hold concentrated portfolios of 65 to 80 stocks, with the best names receiving up to four percent of assets.

Lanny Thorndike, the firm's chief investment officer, will head Century Capital's team. He has 17 years of investment experience, and earned his AB at Harvard University and his MBA at the Kellogg School of Management at Northwestern University.

In case they've slipped your mind, the other six managers are Vanguard's Quantitative Equity Group, responsible for 25% of assets as of April 30th, 2008; Granahan Investment Management, 22%; Kalmar Investment Advisers, 14%; Wellington Management, 14%; AXA Rosenberg, 13%; Chartwell Investment Partners, 9%; with 4% of the portfolio in cash. Add an as-of-yet undisclosed percentage to Century Capital to that list and the jumble is complete.

As we've discussed several times in the past, whether in regards to Explorer, as it has steadily accrued management teams over the last few years, or other funds that have taken a multi-manager approach, we generally do not approve of the strategy, and especially not in this case. Performance has become more and more muted and index-like over the years here, and, if the fund weren't closed, we would not recommend Explorer to new investors.

Vanguard Opens Total World Stock Index

On June 26th, Vanguard opened the doors to its newest international fund (and ETF), Total World Stock Index.

The fund will trace the performance of the FTSE All-World Index (Vanguard World ex-US index tracks a version of the same index, minus U.S. companies), a benchmark of about 2,900 stocks in 47 countries. This is Vanguard's second global fund, the other being the actively-managed Global Equity, which we've incorporated into many of our client portfolios.

Total World Index's investor shares charge 0.45% in expenses, with a $3,000 minimum initial investment, and there is also a 0.25% front-end load, as well as a 2% back-end load on shares sold within 60 days of purchase. The ETF shares are probably the better option for investors interested in this fund, charging just 0.25% in expenses, with no loads or minimums (standard brokerage fees do apply, however).

While this new fund and ETF provide more depth to Vanguard's international offerings, we believe that the firm's best international options will continue to be the actively managed Global Equity and International Explorer.

For more on Total World Stock Index, please take a look at our April 2nd *Adviser Fund Update* (the fund was initially to be called "Global Stock Index" and is referred to as such in that story), which can be found in the "Research" section of the Adviser Investments website.

International Fees Cut

In the same press release announcing the opening of the new fund, Vanguard also revealed that it was reducing fees on two funds: World ex-US Index and Emerging Markets Index. World ex-US Index is losing its 0.25% front-end load altogether, while Emerging Markets Index is having its front- and back-end loads reduced from 0.50% to 0.25%. World ex-US and Emerging Markets' expense ratios remain unchanged, at 0.40% and 0.37%, respectively. Investors interested in opening new accounts in these funds may want to consider their ETF shares instead, as the expenses are lower and there are no loads at all, although ETF investors will need to pay brokerage fees.

Fidelity's Antico to Retire

17-year Fidelity veteran Paul L. Antico is calling it quits on July 1st, and Andrew H. Sassine will assume his management responsibilities at Small Cap Stock. Sassine will continue to manage International Small Cap Opportunities. He joined Fidelity in 1999 as a research analyst, following, at various times, high-yield investments and the defense and aerospace, restaurant, satellite, technology and telecommunications industries. He moved over to the international equity group in 2001, covering international small- and mid-cap companies, going on to spend a year in Hong Kong following Chinese small- and mid-caps before being appointed manager of International Small Cap Opportunities in 2005. Before joining Fidelity, Sassine served as a vice president in the Acquisition Finance Group at Fleet National Bank and prior to that, managed a portfolio for Continental Bank and Heller Financial in Chicago.

Investors in the fund should not be concerned by the change.

About Adviser Investments

Adviser Investments is an independent, professional money management firm specializing in Fidelity and Vanguard mutual funds. With 1,500 clients and $1.2 billion dollars under management, Adviser is one of the nation's largest mutual fund research and money management firms. Our staff of 37 investment professionals focuses on helping individual investors, trusts, foundations, and institutions meet their investment goals. Our minimum account size is $350,000.

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