ADVISER INVESTMENTS

ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

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Rate Hikes On Hold

What the Fed said this week was far more significant than what they did.

As expected, the Federal Reserve announced on August 5th that it would not be moving the Fed Funds Rate from its current 2%.

But the central bank underscored the malingering affects of a housing crash and historically high commodity prices on a slowing economy while playing down the threat of inflationary pressures.

On the surface, this stance suggests the obvious: it indicates that rates are unlikely to be changed over the next few months. Generally, the Fed will cut rates when there are worries about the economy contracting and raise them when inflation becomes a larger problem. In the current market environment, however, both the economy and inflation are sources of concern, so standing pat is the compromise position.

But below the surface lurks a darker theme. One reason why the Fed is willing to put off the need to fend off inflation is that there are emerging signs of a global slowdown. We've already seen the dramatic pullback in pie-in-the-sky oil prices over the past few trading weeks. Oil prices have their price finger on the pulse of global economic activity. As they slow down, inflationary pressures ease—but economic pressures, in the form of recessionary issues, mount.

A review of the most recent macro economic data suggest that the U.S. economy is not simply a beneficiary of the global economic boom, it has in fact become dependent upon it. So any slowdown in Asia, Europe, and/or the emerging markets could have a measurable (negative) market impact here at home. The probability of a slowdown in all three regions beyond our own pale is rising.

So while the many view the Fed move as neutral, and while the news was welcomed on Wall Street, as the Dow Jones Industrial Average and the S&P 500 both jumped up 2.9%, while the NASDAQ rose 2.8% over the course of the day, we're focused on what their language implies about the state of the global economy with respect to our own.

Don't forget, the one-day Fed rally (the biggest gain for the Dow since

April 1st), was borne on the facts of an increased likelihood that economic growth is more vulnerable to perhaps a broader and more protracted global slowdown; hardly the stuff that makes for a sustainable rebound.

Stay tuned.

Vanguard Total International Changes Structure

Vanguard announced on August 5th that Total International Index has changed its investment policies, enabling the fund to invest directly in securities in European, Pacific and emerging markets countries.

Previously, Total International Index, dating back to its 1996 inception, used a fund-of-funds structure, splitting assets between three other Vanguard funds: Emerging Markets Index, European Index and Pacific Index to mimic the results of its Total International Composite Index (itself comprised of three components: MSCI Emerging Markets Index, MSCI Europe Index and MSCI Pacific Index).

Total International can immediately begin routing new investments directly into stocks and the current plan is to shift about 50% of the fund's existing assets into securities and out of the underlying funds.

Vanguard says it is making the change to reduce tracking discrepancies, with the goal of more closely matching its benchmark's performance. An added benefit of the new structure is that shareholders may—eventually—be able to take advantage of the foreign tax credit, allowing them to credit any taxes paid by foreign securities in the fund against their U.S. tax returns, something currently not allowed under the fund-of-funds structure.

The firm does not expect that the change will have any effect on existing shareholders nor shareholders in the three underlying funds. The expense ratio of 0.27% should remain the same and Vanguard does not anticipate paying out any capital gains distributions to shareholders.

Fidelity Manager Move

The following change should not be a concern for Canada fund investors.

On September 1st, Douglas Lober will take over as interim manager of Fidelity's Canada fund (both investor and Advisor shares), along with a number of funds available only to Canadian investors while funds' current manager, Maxime Lemieux takes a leave of absence. Lober first joined Fidelity in 1986, starting as an equity analyst covering the broadcast, cable, energy, entertainment, gaming, hotel, publishing and toy industries and managing Select Housing and Select Multimedia until 1989. From 1993 to 1997, he was an assistant professor at Duke University, acting as director of the school's Center for Business and the Environment during that period. He rejoined Fidelity in 1997, reprising his role as an equity research analyst, covering the paper and forest products industry and managing Select Paper and Forest Products. In 1998, he moved over to the Canadian group, following the technology, industrial and transportation sectors. A year later, he began managing diversified Canadian portfolios.

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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