ADVISER INVESTMENTS

# ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

**In This Issue**



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## Hanging Tough

In the past two weeks, we have seen the president and congress approve the federal bailout plan, the Federal Reserve take an aggressive stance by pledging to invest in commercial paper one day and then cut the federal funds rate by 50 basis points the next (a move that was in concert with a number of central banks across the globe) and the markets reacted to these measures with thrilling and chilling leaps and dives.

The most extreme example of the markets' volatility could be seen over the course of the four trading days starting on Friday the 10$^{th}$ through Wednesday the 15$^{th}$. On Friday, the markets suffered a hefty decline, followed up by a record-setting rally on Monday, as the Dow saw its biggest single-day point gain ever, up 936 points and 11.1%. Tuesday saw a drop off and Wednesday the markets took another dive, with the S&P 500 experiencing its largest one-day decline since the October 19, 1987 market crash. These types of moves indicate to us that markets are moving far more on emotion than on fundamentals.

It seems that inflation may remain a concern, however, as Wednesday's PPI report showed a 4% increase over last year, the highest level since 1991. Thursday's CPI report showed that consumer prices were essentially flat in September, which likely has to do with the tumble in oil and energy prices.

One uncertainty that will be taken out of the markets in the coming month is the result of the presidential election, which could help tone market action down a notch regardless of which candidate prevails.

There've also been some important initiatives taken during the month as the markets have fallen and while it's too soon to see results, they should be forthcoming. It takes time, even when the government reacts quickly, for a financial knot to be unraveled.

At Adviser Investments, we do not believe that we are in another Great Depression by any means. While unemployment is high, at 6.1%, it is a far cry from the Depression-era level of 25%. You may be besieged by talking heads on the "infotainment" networks screeching about doom and disaster, but selling out and making wholesale moves to cash or bonds now could be far more disastrous for your portfolios in the long run.

One cannot reliably time the stock market. When stocks begin to snap back, it will happen with a fury. Once the skein is untangled, the markets' needles will begin knitting swiftly anew. Looking back over the past three decades or so, as we regularly do in times such as these, one will find that missing just a dozen of the best months in the market can cut your long-term return by more than one-third on an annualized basis. That's a huge difference when compounded, and that's why we are advising our clients not to cut and run.

**Fidelity and Vanguard Money Markets Get Treasury Guarantee**
Fidelity and Vanguard both announced earlier this month that the trustees of the firms' money market funds have elected to participate in the Treasury Department's program to insure the account values of money market mutual funds (as did the boards of every other major money market mutual fund provider in the U.S.).

The program is a temporary measure—scheduled to last only three months, although it could be extended up to a year if the Treasury Department deems it necessary—to insure the value of investments in money market mutual funds in case they "break the buck," the steady $1.00 share price they seek to maintain at all times. In fact, while it's extremely rare for money market funds to be placed in circumstances where they do break the buck, what triggered the program's creation was the Reserve Primary Fund, one of the oldest and largest money market funds, doing just that in mid-September.

The program works as such: Fund companies had until October 8$^{th}$ to buy in, at which point the Treasury Department undertook to guarantee the value of shares held in the participating funds as of September 19$^{th}$ (shares bought after that date are not eligible for the guarantee). Each fund paid a small fee to participate—for the Fidelity and Vanguard funds it amounted to a 0.01% or 1 basis point fee per fund ($1 per $10,000 in assets). Now covered, in the extremely unlikely event that one of Fidelity or Vanguard's money market funds do drop below $0.995 per share, the Treasury Department will reimburse shareholders the lesser amount between the value on September 19$^{th}$ or the value on the day the fund broke the buck.

While we certainly support Fidelity and Vanguard's decision to participate in this program at a minimal cost to investors, it is our feeling that neither of the firms' funds will have need of the guarantee, and representatives from both Fidelity and Vanguard have also said they would have been able to avoid breaking the buck without the Treasury Department's program. However, the firms deemed that it is well worth it to give investors an additional feeling of security in troubling economic times and that is why they joined up. So for those of you with money market fund holdings at Fidelity or Vanguard, rest assured that you have the double protection of both the firms' excellent and prudent managers, as well as that of the U.S. Treasury now looking out for your investments.

## 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 40 investment professionals focuses on helping individual investors, trusts, foundations, and institutions meet their investment goals. Our minimum account size is $350,000.

For more information, please visit www.adviserinvestments.com or call 800-492-6868.



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