INTEGRIS WEALTH MANAGEMENT

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Holiday Hope & Perspective

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If you follow the headlines, watch the financial news, or look at your account statements, it feels as if this is the worst financial crisis ever. It is certainly bad, but some historical context may help you see that it may not be as bad as you think.

U.S. Markets Have Done This Before

Since the Great Depression there have been two U.S. market downturns as severe as this current one. As of the end of this November, the stock market was down about 41% from it's month-end peak in October 2007 (as measured by the S&P 500). The other similarly bad periods for the U.S. market were January 1973 to September 1974, during which the market dropped 43%; and August 2000 to September 2002, when the market dropped 45%. It is interesting to note that the "crash" of 1987, which sticks in our minds as a "worst ever" type event, was ultimately not as severe as these other periods, and it reversed itself quickly.

This is just to say that while the current market downturn is dramatic and painful, it is not unprecedented. Equally severe downturns have happened twice since the Great Depression, and in both instances investors who stayed the course were ultimately rewarded for their discipline.

Broad and Global Diversification Has Not Helped

We have always been strong advocates for broad portfolio diversification. Historically, being diversified across US stocks, non-U.S. stocks, real estate stocks, and bonds has been highly beneficial.

During the 1973-1974 downturn, broad diversification reduced the decline in portfolio value by almost a third. During the 2000-2002 period, the decline in portfolio value was reduced by more than half.

However, the current down cycle has been unprecedented in its reach. This time, even though U.S. institutions were at the center of the triggering mortgage crisis, the non-U.S. equity markets have been even more severely affected. In addition, asset classes such as real estate securities and high yield bonds have done far worse than in past periods. In the current situation, a broadly diversified portfolio has declined by the same percentage as a U.S. only portfolio.

Period	US Only Return	Broadly Diversified Return
1973-1974	-43%	-30%
2000-2002	-45%	-21%
2008-???	-41%	-41%

The one truly “unprecedented” attribute of the current crisis is its broad and global reach.

Comparison to the Great Depression

We would agree that this is among the worst crises for investors since the Great Depression. However, during the Great Depression the political and economic powers simply lacked the knowledge and experience to confront the challenges of a liquidity crisis. Instead of INCREASING liquidity and credit to keep money flowing, money supply was TIGHTENED. Experts contend that this action was the main cause of the Depression as well as the reason it lasted so long.

Since the disaster of the Great Depression, we have learned the importance of maintaining liquidity in the system. Through the creation and empowerment of our central bank (the Fed), we have significantly increased the government’s ability to inject liquidity into the system in periods of crisis, and that is what the Fed is busy doing right now. And in addition, other nations’ central banks have joined together with the U.S. to combat the problem.

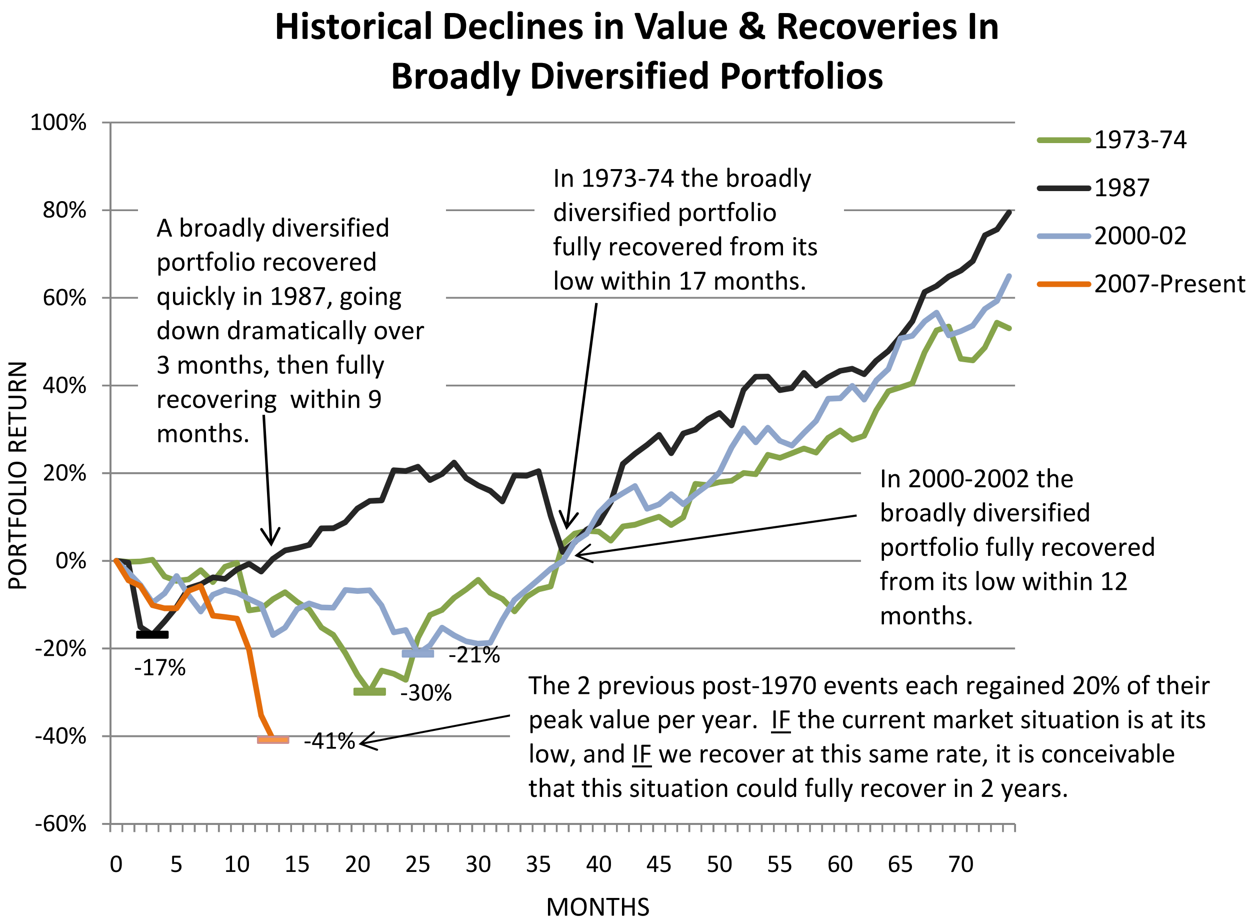
Since the Great Depression, we have also created the FDIC, a system to insure bank deposits.

These changes are significant reasons why the present situation, while serious, is not a realistic comparison with the Great Depression.

Glimmer of Hope?

Clients have been asking us “How long will it take to recover my losses?” The feeling on the part of many clients is that the values have declined so far that it will take 10 years or more to recover. Although we can’t be certain what the future holds, an examination of history suggests that the recovery period could be much shorter than you might imagine.

Our clients are all invested in broadly diversified portfolios, so we analyzed the recovery period for such a portfolio during those two periods mentioned above – 1973-1974 and 2000-2002. We also looked at the less severe 1987 “Crash”. The chart below shows the changing value of this broadly diversified portfolio for the above mentioned market periods. For each period it starts at the peak value, follows it down to its low point, and then back up to the previous peak and beyond.



The thing that is most noteworthy about this chart is that the recovery periods were surprisingly fast. This does not mean that history will repeat itself, but it does mean that a relatively fast recovery is possible. In 2000-2002 the broadly diversified portfolio was down 21%, and it fully recovered in 1 year. In 1973-1974 the portfolio was down 30%, and it fully recovered in about 1½ years. The current portfolio is down 41%. ***If*** we are at the bottom and ***if*** recovery occurs at the same rate as with these two past situations, full recovery ***could*** be reached within 2 years.

We don't know how long it will take to recover our losses, but it is interesting to observe that after just 6 years following each major decline in the past, for all 3 situations on the graph – 1973-1974, 1987, and 2000-2002 – investors had not only fully recovered, but in addition, had increased their portfolio values by another 50% to 70%!

We continue to believe that capital markets work, and that diversification works over the long term. We believe that a broadly and globally diversified portfolio is the best long term investment strategy. In the past, disciplined investors were rewarded for not panicking; and we believe this will continue to be the case going forward.

From all of us at Integris, we want to extend our wishes to you and your families for a healthy & happy Holiday Season. And we thank you for your continued trust.

Integris Wealth Management is actively seeking new client relationships. If you know of anyone with $1 million or more of investable assets who you think could benefit from comprehensive financial planning and wealth management services, please contact us.

For more information about our wealth management process and services, please visit our website at integriswealth.com

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