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Third Quarter Overview  
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Robert W. Tull, Jr.  
Certified Financial Planner™

www.TullFinancial.com



# The Quarterly Report

With three-quarters of the year in the books, returns have been pretty good. The market volatility, credit crunch, housing market collapse, and hedge fund debacles make it hard to believe the overall stock market was in the black during the third quarter. But it was, with the S&P 500 gaining 2%. Moreover, through September the index is up 9.1% on the year. While the numbers for the overall stock market were quite satisfactory over both periods, there was a wide degree of variation across asset classes. For the year, growth is ahead of value by a wide margin after seven consecutive years of underperformance. International stocks gained over 4% in the quarter, extending their run of impressive returns. With the exception of high-yield bonds most other fixed-income asset classes had a solid quarter, with investment-grade bonds climbing almost 3%, emerging-market short-term bonds returning almost 5%, and commodity futures gaining over 6%. REITs managed to post a positive quarter with a return of 2.4% though they are still in the red on the year.

TCW Select Equities Fund badly underperformed in 2006, but has bounced back recently and is now having a strong year. Bill

Nygren's Oakmark Select Fund continues to slump though our confidence remains intact. Studies show that the majority of funds with strong long-term track records go through extended periods of underperformance. This is a particular risk with concentrated funds (like Oakmark Select), but the reward from a skilled manager more than compensates for this risk when they are firing on all cylinders. Based on our ongoing due diligence work, we believe Oakmark Select will eventually reward our patience.

So far each of our asset allocation plays has added value in 2007, with emerging-market

short-term bonds (PIMCO Developing Local Markets), commodities (PIMCO Commodity Real Return) and large-caps (we are overweighted versus small-caps) all outperforming the asset-class alternatives that we would have owned in our default allocations. At the security-selection level, our bond fund managers have also added value but as stated earlier, our equity managers have had mixed relative performance, and overall they have not added value. We continue to have a high level of confidence in each of the funds we own (and, as always, we continue to research

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*Success is never final  
and Failure never fatal.  
It's courage that counts.  
~ George F. Tilton ~*

## Something Different This Way Comes!

We are currently upgrading our portfolio data software. With this change comes newly designed Managed Asset Portfolio Quarterly Reports—easier to understand, and with benchmark comparisons to your Portfolio performance. So be on the lookout next quarter...you'll be getting the Data you want, without the clutter!

## The Quarterly Report



*Robert Tull was recently asked to serve as a financial analyst for CBN's Newswatch program, answering questions about the current housing and sub-prime mortgage issue. You may view the video by visiting:*

<http://www.cbn.com/CBNnews/222341.aspx>

<i>Mutual Fund Yardsticks</i>	<i>One Year</i>
S&P 500	16.44%
Average U.S. Stock Fund	17.26%
Average Foreign Stock Fund	31.60%
Average Bond Fund	5.05%

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other funds as well).

Looking ahead, there are a number of positives for the financial markets, including relatively low interest rates and a surplus of global liquidity looking for a good return. However, the driving factor for returns over the next year will likely be the U.S. economy and its impact on the rest of the world. For now the outlook remains murky. However, we've been through many difficult times over the years including market crashes, recessions, Fed tightenings, terrorist events, oil price spikes, geopolitical drama, and the worst bear market in 35 years (and arguably the worst since the 1930s). We also have a deep respect for the financial markets' ability to surprise investors. We have lived through many troubling times, when investor sentiment was in the dumps, but they were somehow followed by good returns. And when the opposite occurred—nasty market corrections or bear markets—we were able to take advantage of compelling return opportunities that were created. So while every cycle is different, what is the same is our philosophy of structuring portfolios to capture the best long-term return we believe possible while seeking not to violate the portfolio's one-year risk tolerance. (We don't focus on risk over shorter time periods because it results in excessive conservatism and opportunity cost.) This approach has stood up well over time, and is what you can expect from us going forward. ~ RWT



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<http://www.tullfinancial.com/clientservices/privacypolicy.asp>

## **Tull Financial Group**

640 Independence Pkwy.  
Suite 300  
Chesapeake, VA 23320

Phone: 757.436.1122  
Fax: 757.436.1803  
Toll Free: 888.296.PLAN

[www.TullFinancial.com](http://www.TullFinancial.com)

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