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First Quarter Overview  
 Volume 14, Issue 1



# The Quarterly Report

Stocks were down sharply in the first quarter. A few strong days at the end of March were not enough to offset the pain of the roughest quarter we've seen in a number of years. Large-cap stocks were off by 9.5% and International stocks lost 8.9% for the first three months of the year. Commodity futures and emerging-markets local-currency bonds both did very well, gaining 9.6% and 4.7%, respectively, based on their indexes. REITs managed a decent quarter, with a 2.2% gain, while high-yield bonds were off by 3% as bond investors shunned risk.

**We are eliminating our positions in commodity futures and putting the proceeds in PIMCO Developing Local Markets.** The short explanation

is that we think the increasing economic weakness combined with the strong run up in commodity prices in recent months outweighs the longer-term diversification benefits of owning commodity futures at this time.

We are often asked, given the current economic risks, why not reduce our exposure to stocks? We are not reducing stock market exposure because, in spite of the risks, we view stocks as priced to out-return bonds over most five-year scenarios. We believe stocks are attractively valued relative to bonds, and we may soon move tactically to overweight to equities.

The bottom line is that we don't believe stocks should be sold now in spite of near-term risks. Supporting this view:

- Stocks are down 15% from their peak as we write this. In six of the eight 20% or greater market declines since 1950, stocks delivered strong, double-digit annualized returns over the following three years. The two times that did not happen were in the secular bear markets in 1973-74 and earlier this decade.
- The Fed has clearly indicated it will do everything within its power to avoid the scary scenario of an out-of-control debt-deleveraging cycle. Congress may also enact policies that may help to

support the housing market.

- Markets are forward looking not backward looking. This is why stocks almost always start to rebound months before the end of a recession. If we are already in a recession, stocks will probably begin to rebound later this year, possibly soon. It is possible that they have already bottomed.

- A number of stock pickers we respect are encouraged by current stock-picking opportunities.

One risk that investors face in market declines is the risk of whipsaw-selling into market weakness and ultimately buying back into the market at higher prices. Having already experienced a considerable

price decline, we don't want to have a smaller weighting to stocks during a market rebound than we held during the decline. If we knew that stocks were headed for a much bigger fall we would reduce exposure. But we don't know that and again, they are already priced to beat bonds or cash in most five-year scenarios. If stocks do have much further to fall, our various balanced portfolios have other assets to help cushion that decline. And lower prices ultimately suggest higher returns down the road.

As we write this, market volatility continues—but in the last few days it has been on the upside. However, we suspect this will continue to be one of the most challenging investment environments we've ever faced, at least for a while. We believe investors may still be underestimating the losses yet to be written off by the financial sector and the resulting economic ripple effects. But stocks are reasonably valued now, and if they fall much further, it will represent an attractive buying opportunity for long-term investors. We can't know what the near-term is going to bring, but at times like this when economic uncertainty is high, our discipline and research process keep us grounded and give us confidence in our ability to make sound long-term decisions. ~ RWT ~

*If we had no winter, the spring would not be so pleasant; if we did not sometimes taste of adversity, prosperity would not be so welcome.*  
 ~ Anne Bradstreet, Author ~

<i>Portfolio Benchmarks</i>	<i>One Year</i>
Vanguard Total Bond Mkt. Fund	+7.83 %
Vanguard 500 Index	-5.17 %
Russell 2000 Index	-13.00 %
Vanguard Total Int'l. Fund	+1.34 %

## The Quarterly Report

### Spotlight On: Sandy Barton

TFG Client, Retiree, National Traveler



As far as we know, there's no rulebook stating that once you retire, all your dreams retire with you. In fact we believe that, with savvy financial planning during your work years, retirement can be the time to make many of your dreams come true! One of the best examples of this is our client, Ms. Sandra "Sandy" Barton.

A little over a year ago, Sandy came to us for some advice in financially planning a cross-country trip. But this was not just any trip...this was the fulfillment of a life-long dream...a reward for working hard, saving smart, and investing wisely. Sandy was planning a two month vacation driving the Historic Route 66. Yes, *the* Route 66...the one beginning in Chicago, IL, and ending in Los Angeles, CA. The one made famous by humorist Will Rogers, immortalized in song by Bobby Troup, and featured in numerous movies, the most recent being Disney-Pixar's animated feature *Cars*. Dubbed "The Mother Road," it was once proposed to be the highway of America—the gateway to the west—and in fact, at one point, it was suggested that it begin in Virginia Beach, VA. But those plans were eventually scrapped with the design of the current interstate highway system. Now Route 66 is more like nostalgia lane—in many places not more than a dirt path—where one can see the remnants of true Americana. However, this trip is not for the faint of heart. The old Route 66 is no longer indicated on modern maps, and any serious adventurer would need detailed maps and guides before hitting the road. And that's exactly what Sandy did.



But before hitting the elusive road that is still traveled by horse-bound riders, Sandy needed a reliable "pony" of her own. Her trusty steed came in the form of a new, "grabber orange" Mustang convertible. After packing up the essentials—which included a digital camera and a computer for her journal entries—Sandy finally heeded the call to "go west."

Picking up the trail in Springfield, MO, Sandy kicked off her Route 66 adventure by staying at the classic Rest Haven Court Hotel. From there she trotted through a corner of Kansas into Oklahoma, stopping for a visit with ol' Will himself at the Will Rogers Memorial Museum, and giving a passing wave to The Blue Whale. Making her way through Texas she caught site of the eccentric Cadillac Ranch and its little spin-off, Bug Ranch. Once hitting New Mexico, Sandy was treated to a time capsule of classic automobiles at the Route 66 Museum, as well as a few snowflakes. Moving into Arizona, she explored the Petrified Forest before stopping to rest in a...teepee.



Though it had no refrigerator, internet, or even a (gasp!) telephone—she could not resist staying at the Wigwam Village. After an inspiring Easter service at The Church of the Red Rocks, Sandy was joined by her good friend Diane for the remainder of her Route 66 adventure—and as with most adventures, there's always at least one "white knuckle" moment. Sandy found hers on a winding section of The Mother Road, which lasted many miles going over mountains riddled with sheer drop-offs. Thankfully, her trusty steed stayed steady and her guardian angel had the wheel, steering them safely through the mountains and into California where they were greeted by happy palm trees. Galloping past the Bottle Tree Forest and into Los Angeles, they finally and quite literally reached the finish line—where Route 66 ends near the Santa Monica pier and the Pacific Ocean.

Whew—what an incredible feat! Obviously we only touched on a few highlights of her journey...her journal was chock-full of sightings of artful oddities, celebrity hangouts, nostalgic museums, historic monuments, and even a coyote encounter. And she did take a few detours along the way to visit family, and used a more northern route on her way back east. All in all, the Route 66 trip took 66 days total, and was made during her 66th year. Amazingly enough, the whole "66" theme wasn't even planned! So what did Sandy have to say about living out one of her dreams? *"I have been blessed to be able to make this trip...my 'pony' performed well, I never had a traffic jam nor dangerous weather conditions, and everything went smoothly. I was able to appreciate*



*much of God's creation, and many impressive (and sometimes quirky) things made by man using God-given talents."* And what, we wondered, was the best part of her trip? She had an easy answer for that one: *"The best part of any vacation is always—COMING HOME!"*

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