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Dear Investor,

Looking Back!

Most Mondays the Wealth Managers and I meet to discuss what we've read or seen over the past week. We review performance figures and communicate as a team to make sure we act prudently and collectively and not emotionally and singularly. Quarterly, we roll up our sleeves to review the economic landscape, evaluate allocations in portfolios and discuss trends and/or fads that may alter the investment landscape in the future.

As I reflect on our decisions over the past 12 months, I'm happy to say we got many things right. However, we also recognize we've erred some. What we got right was our decision to stay the course even during the mid-summer correction of 2006. We believed the downturn was part of a normal correction, not the beginning of a recession or major decline in the US markets. We held firm to our international/global allocations even though some suggested the US was likely to outperform foreign markets. If anything, we should have placed a greater percentage of holdings overseas. Lastly, our belief that the housing market was overdue for a pullback came to fruition.

Where we stumbled or underestimated was in a newer area of investing called Alternative Investments (AIs). AIs include things like precious metals, energy, commodities, real estate, hedge funds and the use of leverage (debt), just to site a few examples.

Ever since the bear markets of 2000, 2001 and 2002, individual and institutional investors have been looking for alternatives to traditional stocks, bonds and cash. The goal is to earn high returns with less risk. Often after something bad happens, investors are quick to look for something different or new. For example, in the late 1990s it was day trading and technology stocks. Forget "buy and hold" or "diversification". Then the equity markets declined, leading many to believe "flipping houses" was the new sure thing. After that, gold and/or oil became the "get rich quick" scheme. Each time investors moved from one area to another in search of the "next best" thing.

The question: Are AIs a lasting trend (like international investing in the late 70s and early 1980s) or a fad as investors move from one "hot" area to another? Based on the commitment by institutional investors, we believe AIs are here to stay. Gradually, you'll see some of these AIs added to many of your portfolios in a small and prudent manner. The purpose is to provide better returns with less volatility.

Being Present!

Things seem to be pretty good indeed these days - without being dangerously close to going "over the top." The world economy is doing well. The US economy is growing at a sustainable rate, averaging around 3.5%.