

Van Sant & Mewshaw Inc.

Registered Investment Advisor

Common Sense Advisor ©

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MARKET MANTRA

Analysis/Commentary

In the January 2008 issue of the *Common Sense Advisor* we said, "The markets have been extremely volatile during 2007 and by all indications will continue to be so in 2008." Some might consider that a bit of an understatement. Nonetheless, we continued to maintain a defensive posture in our client portfolios based on our assessment of market risk. As of this writing our position hasn't changed.

(Continued on page 2)

NEWS AND UPDATES

Charles Schwab Again Reduces Fees

Made effective February 20, 2008, for those clients with household accounts totaling in the aggregate \$1 million or greater, transaction fees for equities and exchange traded funds are reduced from \$9.95 per trade to \$8.95. Also the annual \$20 account fee previously for the Schwab 529 College Savings Plan has been eliminated entirely. These changes go hand in hand with our philosophy and investment management practice of keeping investment expenses to a minimum.

401(k) Plans A Potential Liability for Employers

Employers should be made aware that recently multiple lawsuits have developed with regard to opportunity cost litigation as well as trustees breaching their fiduciary duty (whether knowingly or unknowingly). Many employers are under the false assumption that their 401(k) expenses are at a minimum or even zero. An expensive 401(k) plan can cost employees thousands of dollars causing a detrimental effect on future retirement benefits, **for which the employer could be found liable.** At *VSM* we are able to help employers and trustees bring transparency to their 401(k) plans, avoiding possible problems in the future. By conducting a comparative analysis, we can bring disclosure and help in the following areas; ERISA and Fiduciary Violations (including 404c violations), Investment Selection, Employee Education and Opportunity Cost, and reduce overall plan cost and expenses. If you would like to learn more about our 401(k) services or have your company or employer take advantage of our free 401(k) analysis, call our office at 410-825-5544.

Returns 2008

INDEX	YTD	1 YEAR
S&P 500	-10.40%	-7.10%
Dow Jones Industrial	-7.16%	-1.00%
Nasdaq	-14.10%	-5.90%
Russell 2000	-10.20%	-14.30%
Foreign Stocks	-9.50%	+2.85%
Enhanced Growth	-9.54%	-5.72%
Growth	-6.68%	-2.57%
Moderate Growth	-4.96%	-0.73%
Conservative Growth	-2.68%	+1.55%
1YR T Bill	+0.080%	+3.24%

For information about our Managed Account Services we can be reached at (410) 825-8844

Minimum Account Size \$150,000.00

Moreover, the recent performance of the equity markets worldwide has been unnerving to say the least. The US market as measured by the S&P 500 is down 10% for the year and down 16% from its peak set on October 9, 2007. Overseas markets have not fared much better, with the broad based world index, MSCI EAFE (Europe Australasia Far East) down over 9%. European markets have done much worse; the composite DJ Euro Stoxx Index is off over 16%. Also, after providing stellar performance for investors the last several years the two largest developing markets, China and India have fallen 27% and 22% respectively. The ostensible cause of this market drubbing has been attributed to, take your pick; the weakening economy, the falling dollar, rising oil prices, the implosion of the subprime debt market, the astrological charts are unfavorable for stocks...for whatever reason...we are in a period of declining equity prices worldwide. While the immediate declines in the markets are a "bell ringer", the market returns since the beginning of the decade have been dismal. Using the Vanguard S&P 500 Index fund as a measure of performance that an individual investor could achieve, the total return has been less than Treasury Bonds. Indeed, the eight year period starting from January 1, 2000 to February 29, 2008 produced a total average annualized return of 0.35%. That is to say \$10,000 invested on January 1, 2000 would be worth, including reinvested dividends, \$10,289. From mid-decade, to February 29, 2008 the total annualized return was 4.83%. Again, \$10,000, with reinvested dividends, would be worth \$11,610. And the average annualized return for the trailing ten-year period is 3.98%; resulting in \$14,777 from an initial investment of \$10,000. Utilizing a more diversified portfolio (using Index Funds as a proxy) including Small Cap Stocks, Foreign Stocks, and Bonds, all equally weighted, an investor would have fared much better. Even

this portfolio produced a sub-par performance for the ten-year period of 6.21% annualized return. In essence the markets have gone through an extended period of sub-par returns, well below the historical average of 10% and for the immediate term are mired in a worldwide liquidity crisis. The previous decade of market returns, 1989 through 1999 produced average annualized returns of 22%, more than twice that of the historical return. Our analysis; what we are experiencing, through these subpar returns, are what statisticians refer to as mean reversion. In plain English; the return on stocks will eventually move back towards the historical average of 10%. Hence, it's not surprising that after having returns greater than 22% from 1989 to 1999 that we are having returns of less than 1% for the preceding ten-year period. Of course none of this negates the current pain of a market decline, but it's important for investors to realize that market declines are an inevitable part of investing. In order to put things in perspective we thought it would be beneficial to examine past market declines with regard to their frequency and duration. The table below delineates four ranges of market declines ranging from routine to a full blown Bear Market. The most salient point to take from the information provided is market declines are finite...they end. And the strong performance of stock market returns over the long term makes a cogent case for our investment strategy; balance your portfolio across several diverse assets classes utilizing low-cost index funds and rebalance the mix on a periodic basis. These core tenets coupled with a disciplined approach allow investors to ignore the distraction caused by transitory and volatile markets and focus on what is really important, the gradual accumulation of returns earned by a diversified portfolio over the longer term.

YOUR WORDS HERE

TYPE OF DECLINE	AVERAGE FREQUENCY	AVERAGE LENGTH
Routine -5% or more	Approximately 3 times a year	47 Days Approximately 1.5 months
Moderate -10% or more	Approximately Once a year	114 Days Approximately 4 months
Severe -15% or more	Approximately Once every 2 years	216 Days Approximately 7 months
Bear Market -20% or more	Approximately Once every 3 1/2 years	332 Days Approximately 11 months

Average length equals the period from the market high to market low. Source: Capital Research & Management Company.

NOTABLE QUOTES

“One of the strange and unusual features of the current economy is the extraordinarily wide spread between the five percent of the population that is truly rich and the rest of the population. In my opinion, five percent of the population of the US is rich, ten percent of the population (what’s left of the upper middle class) is living quite well, and the rest of the nation’s eighty-five percent, are just making it or else they are living in various states of poverty or semi-poverty. Thus, there is a very noticeable unrest in the country. Taxes and inflation are robbing people of their earnings. And despite government lies, the American public is aware of the burden of both taxes and inflation. Furthermore, the trend of taxes and inflation is towards higher levels. This is, I believe, the reason why the presidential candidates continue to harp on the word “change”. People want a change, and I think the change they want is a change in the way their lives are going. It is said that today, for the first time in US history, Americans do not believe that their children will lead better lives than they do. In other words, the “good ol’ days” were yesterday. The “bad ol’ days” are slated for tomorrow. I read this headline in last week’s *International Herald Tribune* “Auction Sales Are Booming In the Midst of Economic Angst”. The article begins, “Future historians of Western societies will marvel at the divergent paths followed by the art market and the broader economy in 2008.” And it’s true, art treasures at auction are bringing absolutely breathless prices, prices never seen or even dreamed about before. Pictures by “secondary artists” are being bid up into the multi-millions of dollars. At auction, yesterday’s thousands of dollars are today’s millions. The wealthy in America have never had it better. Unfortunately the great

majority of Americans are finding that the living isn’t easy.” (*Richard Russell, Dow Theory Letters, 2/22/08*)

“A Claude Monet painting of a cast-iron railway bridge over the river Seine may break the auction record for the artist when it comes up for sale in New York in May...” “Le Pont du Chemin de Fe a Argenteuil,” painted in 1873 during the early “high Impressionist” phase of the artist’s career, could fetch about \$35 million in a May 6 auction...the painting last appeared at auction in November 199, at Christie’s London, where it sold for 6.8 million pounds(\$13.3 million)”...(*Monet Set for Record \$35 Million, Christie’s Says, Scott, Reyburn, Bloomberg.com. 2/22/08*)

“Financially stretched workers are increasingly breaking into their retirement accounts to get cash. Over the past couple of decades, the 401(k) account and its brethren have become the main retirement savings vehicles for millions of Americans. But as the credit crunch and declining home values limit many types of consumer loans, a growing number of workers are tapping into these accounts as if they were piggy banks. Eighteen percent of the workers had a loan outstanding from their retirement plan in 2007, up from 11% in 2006, according to a survey to be released today by the Transamerica Center for Retirement Studies, a nonprofit corporation funded by AEGON NV’s Transamerica Life Insurance Co.” (*Despite Cost, More People Raid 410 (k) for Cash, Eleanor Laise and Craig Karmin, Wall Street Journal, 2/28/08*)

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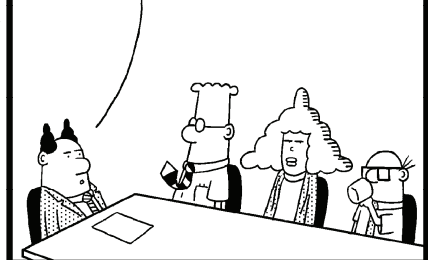
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Passive Portfolio Allocations
March 31, 2008

FUND	ENHANCED GROWTH	GROWTH	MODERATE GROWTH	CONSERVATIVE GROWTH	RETURN 2008
U.S. Stocks Large Cap	65.00%	50.00%	40.00%	30.00%	-9.47%
U.S. Stocks Small Cap	15.00%	10.00%	8.00%	5.00%	-9.21%
Foreign Stocks	20.00%	15.00%	12.00%	5.00%	-8.90%
U.S. Bonds	0.00%	25.00%	40.00%	60.00%	+2.18%
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Return Thru 03/31/08	-9.54%	-6.68%	-4.96%	-2.68%	—

THE PURPOSE OF PASSIVE ALLOCATION

Passive Allocation reflects a logical, static, strategic asset allocation for a hypothetical long-term investor who is not using active asset allocation. It is based on our evaluation of the historical long-term risk and return relationships of the asset classes, and what we consider to be realistic and reasonable expectations going forward. It is the starting point for our active asset allocation process.

The passive allocation is the asset allocation that we will implement when our conviction level about any specific asset class is not high enough to justify changing the asset allocation mix. It gives us a sensible long-term allocation, based on sound research. It gives us a constant frame-of-reference against which to measure decisions. For example, if our research shows small cap growth stocks are at historically undervalued levels, we must decide what they will replace in the portfolio and how far from passive we will stray. This will be a function of our confidence and the impact on the portfolio's risk and return potential. The permanent frame-of-reference imposed by the passive allocation increases the odds that we will consistently apply our methodology. The passive allocation will serve as a benchmark against which to measure our value added.

Passive Portfolio Allocation Historical Risk/Return

PORTFOLIO TYPE	RISK LEVEL 12 MONTH LOSS THRESHOLD	TEN-YEAR AVERAGE RETURN	WORST 12 MONTH ROLLING RETURN 1996 THROUGH 2007
Enhanced Growth	-20%	5.94%	-27.11%
Growth	-15%	5.72%	-18.30%
Moderate Growth	-10%	5.51%	-12.88%
Conservative Growth	-5%	5.00%	-6.96%

Passive portfolio results reflect only hypothetical returns and may differ significantly from results achieved for actual managed accounts. Passive portfolio results reflect reinvestment of dividends, other earnings and the deduction of fund expenses and management fees. Complete descriptions of accounts and transaction history is available upon request. Van Sant and Mewshaw, Inc makes a good faith effort to highlight and summarize certain economic, market, and other data to assist their clients in structuring investment portfolios. This report should not be construed as advice meeting the particular needs of any investor. Investors are advised that past performance is no guarantee of future results. Historical data provided by Morningstar; beginning in April 1996 through December 2007