

Van Sant & Mewshaw Inc.

Registered Investment Advisor

Common Sense Advisor ©

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MARKET MANTRA

Analysis/Commentary

Are we THERE yet? That seems to be the question on everyone's mind. Indeed, the question that inevitably arises during recent conversations with clients. By "THERE," we of course mean "Market Bottom". The current downturn in the financial markets has now entered the record books as the second worst bear market in more than 100 years. Moreover, the news continues to be horrible with evermore layoffs, foreclosures, and

NEWS AND UPDATES

A New Addition to VSM

We are pleased to announce that **Rick Faby** has joined VSM as Senior Investment Counsellor. Rick brings with him twenty-nine years of experience in the investment arena. His credentials are impressive and extensive. Rick began his career in June 1980 at **Merrill Lynch**. In 1986 he joined **Smith Barney**'s Lutherville office. In June of 1993 he left Smith Barney to manage and build a Baltimore presence for **Morgan Stanley**. There he started with three brokers and built it into a complex consisting of 13 offices, 19 managers, and 275 brokers with \$73 million dollars in revenues. As Area Manager he was also responsible for compliance, training staff, and legal issues involved with the operations of running such an organization. In 2007 Rick left Morgan Stanley to become a Managing Director with **Deutsche Bank Alex Brown**, where he was responsible for overseeing their Baltimore operations. Rick was born and raised in Baltimore and is a graduate of McDonogh School. He graduated from Franklin and Marshall College in Lancaster, Pennsylvania. He holds numerous industry credentials and licenses and graduated from the Wharton Senior Branch Management Program in 1997. He is active in the community: Board member B&O Railroad Museum, Founder and Coach of the Chesapeake Soccer Club, Coach at McDonogh and St Paul's Lacrosse. Rick resides in Lutherville with his wife Patty and their three children; Michael, Brady and Summer. When questioned in an interview with *The Baltimore Business Journal* (3/20/09) about his move to VSM; "Faby said he grew disenchanting with the industry's push for higher profits by creating in-house products that brokers had to sell even when they felt it wasn't the right fit for the client."

Returns 2009

INDEX	YTD	1 YEAR
S&P 500	-11.70%	-41.80%
Dow Jones Industrial	-13.30%	-39.90%
Nasdaq	-3.10%	-35.30%
Russell 2000	-15.40%	-40.50%
Foreign Stocks	-14.60%	-46.56%
Enhanced Growth	-11.97%	-40.10%
Growth	-8.93%	-29.33%
Moderate Growth	-7.12%	-22.89%
Conservative Growth	-4.65%	-14.03%
1YR T Bill	+1.10%	+1.60%

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Minimum Account Size \$150,000.00

economic distress. These are certainly very troubling times. But, the current negative environment will not last forever. At some point things will get better. The only question is when. Trying to time this change will be impossible. So, clients, understandably, want from their investment advisor something which we cannot possibly provide...to know the unknowable. Though we have always been steadfast in our answer to any questions regarding our ability at stock market prognostication... we haven't got a clue. But neither does anyone else. Those who profess to know are either self-delusional or a professional Wall Street strategist... but we repeat ourselves. However, because this answer always seems manifestly unsatisfactory to all who ask the question we will attempt to put things in perspective. First we want to state something that's extremely important and is often lost by investors during times such as now. The equities and index mutual funds which appear in your monthly statements under the heading of "Investment Holdings" are tangible assets. They represent real companies and real businesses. And ownership of them represents a claim on the long term cash flow of those businesses and companies which ultimately translates into investor return. The point is, unless we believe the whole world is coming to an end and the stock market will never recover, which would require a complete loss of faith in the productive capacity of all mankind (even we aren't that cynical) stocks over longer periods of time are going to generate positive returns. It pays to be on the opposite side of booms and busts. In the internet boom and coincident stock market bubble of the late 1990's, the financial markets posted record returns well above their historical

averages. During that time, cash and bonds significantly underperformed stocks, enticing many investors to allocate more of their assets to the former and away from the latter. Many investors got caught up in the mania and took more risk than they should have and subsequently paid the price. Today the reverse is true. In the current bust environment, cash and high quality government bonds seem to be the only assets that are not going down. And once again investors find themselves seduced by the "investment of the moment". However, just as the decision to increase stock exposure in the late 1990's was incorrect, in all likelihood reducing equity exposure at current levels will be seen as a wrong decision several years from now. How low can things go? At major bear market bottoms, the Dow Industrial Average has had a dividend yield greater than 6%. Albeit, that was when short-term interest rates were yielding in excess of 14%. Presently, the current yield for the Dow is the highest it has been in more than two decades, 4.5%. To create a yield greater than 6% on the Dow would require a drop to the 5,000 level, or dividend payouts would have to increase, or a combination of the two. The stock markets seemingly continual decline is anything but pleasant. In fact it's quite miserable. But, "This Too Shall Pass". The unknowable...how far valuations need to fall to entice buyers back in to the markets. Stock valuations are now the cheapest they have been in more than two decades. In fact based on current valuations the expected rate of return from equities over the next decade is over 10% annualized (per year). How will we know when we're "THERE"? When investors stop asking.

BEAR TRAP OR BEAR BOTTOM?

Period	Gain	Subsequent Decline
03/10/2008—05/19/2008	12.0%	-37.0%
10/10/2008—10/13/2008	11.6%	-15.5%
10/27/2008—11/04/2008	18.5%	-25.3%
11/20/2008—01/06/2009	24.2%	-27.6%
03/09/2009—??/??/????	23.0%	????%

ABOVE CHART DEPICTS RALLIES OF 10% OR MORE IN THE S&P 500 INDEX SINCE OCTOBER 2007.

NOTABLE QUOTES

“The ETF (Exchange Traded Funds) industry has the enemy in its sights: It’s the active manager who runs a traditional equity mutual fund. When they first appeared in the marketplace, ETFs talked up such virtues as their lower costs, tax advantages and how easy they were to trade. Now, after the worst year for the Dow Jones Industrial Average since 1931, they’re going in for the kill...In theory, active managers should beat indexes because their funds can build up cash during a market drop. They’re also supposed to be able to pick the stocks that will hold up during declines. That’s one of the things you pay them for. They’re not earning their pay. Last year 58 percent of all actively managed funds lost more in value than the benchmark they measure themselves against, according to Morningstar. That’s not much better than chance. Small-cap managers, who are supposed to be especially nimble, had a particularly bad year: 72 percent of them fell behind their benchmarks. Investors are catching on. They pulled \$128.7 billion out of managed equity funds in the first 11 months of 2008, according to the Investment Company Institute in Washington, but didn’t give up on stocks entirely. During that same period, they put \$20.8 billion into traditional index funds. Exchange-traded products attracted \$133 billion.” (*Lame Fund Managers Head for an ETF Thumping, Jane Bryant Quinn, Bloomberg News, 1/14/2009*)

“There’s yet more evidence that it makes sense to invest in simple, plain-vanilla index funds, whose low fees often

lead to better net returns than hedge funds and actively managed mutual funds with more impressive performance numbers. ...So in a miserable year for stocks index funds may not look very appealing. But it turns out that, after fees and taxes, it is the extremely rare actively managed fund of hedge fund that does better than a simple index fund.” (*The Index Funds Win Again, Mark Hulbert, New York Times, 2/22/2009*)

“The auto industry spent nearly \$50 million lobbying congress in the first nine months of this year...Take Sen. Carl Levin, who received \$438,304 from the automotive industry. And in the House Rep. Joe Knollenberg received \$879,327. Rep. John Dingell got nearly a million from the industry. All have enjoyed generous support from the auto industry over their careers...All support a bailout...Dingell’s wife Debbie once worked as a lobbyist for GM. When she married the congressman, she became a senior GM executive at an undisclosed salary...Dingell’s current financial disclosure filed in May list GM stock worth up to \$350,000, options worth up to \$1million more, and a GM pension fund...Dingell wouldn’t agree to an interview.” (*Big Three Spending Millions On Lobbying, Sharyl Attkisson, CBS News 12/3/2008*)

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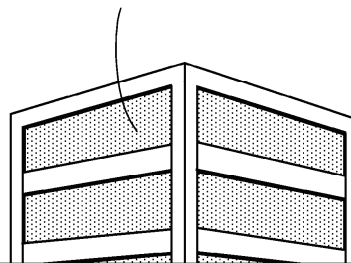
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THEY'RE SOME SORT OF CARTEL. WE WEREN'T IN A POSITION TO ASK A LOT OF QUESTIONS.



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THEY WANT EACH OF YOU TO FLY TO COLOMBIA AND BRING BACK A PACKAGE.

... AND YOU CAN'T USE YOUR HANDS.



Passive Portfolio Allocations
March 31, 2009

FUND	ENHANCED GROWTH	GROWTH	MODERATE GROWTH	CONSERVATIVE GROWTH	RETURN 2009
U.S. Stocks Large Cap	65.00%	50.00%	40.00%	30.00%	-11.00%
U.S. Stocks Small Cap	15.00%	10.00%	8.00%	5.00%	-13.40%
Foreign Stocks	20.00%	15.00%	12.00%	5.00%	-12.97%
U.S. Bonds	0.00%	25.00%	40.00%	60.00%	+0.35%
	—	—			
Return Thru 03/31/2009	-11.97%	-8.93%	-7.12%	-4.65%	—

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