Post Election: *The Search for the Bottom*

November 18, 2008

In a recent talk, I mentioned something I thought of as important, that we often seem to look in the wrong place to assign credit or blame for our great national events. We were at that time looking at the election of the President, but I suggested that the economic issues might well be decided on Capitol Hill, not in the White House. And so they have. The S&P 500 has fallen 22% since Election Day, but it is not reasonable to blame that on the President-elect. His victory was expected, and it is not about the President anyway--he will merely be President, not Monarch.

The continuing drama has moved on from the credit crisis, which itself was greatly exacerbated by the House's failure to pass the TARP. Their labeling of it as "The Wall Street Bailout Bill" and their very poor handling of the issue from start to finish not only meaningfully delayed the funding of the plan (which had to be changed as a result), but cost them what little confidence the market had left in their leadership and sense of responsibility. But as credit finally stabilized a bit, it was time for the next crisis.

What will become of the auto companies?

Well, the issue of the day seemed to be the mode of transportation employed by the automaker CEOs in their travel to Washington. This relentless focus on trivia is amusing in better times, but alarming in such a crisis. After today's announced failure to "resolve partisan differences", the S&P 500 nosedived to a new 11-year low, down 6.7% today and down 48.8% year to date.

Same story. Will Congress let the auto companies totally fail and disappear, with all those union jobs and related business? No. They will now panic, again, and pass something, again, and attempt to make it look as if their process were justified and necessary, again. I wonder if their approval ratings can sink any lower, now that it is already down to friends and family?

In better times we can chuckle about this, but no one is chuckling now. We can only hope that in the end they get it right.

The search for the bottom continues.

In the eyes of some, such as Jeremy Grantham, we are "overshooting on the downside." The market has digested all the bad news and corrected its overvaluation, but is continuing down past its "correct valuation" toward an unknown destination, the bottom. After which it will recover.

Have we finished with the bad news, or will we handle the auto company crisis only to have another take its place? I sincerely hope we are done, and can move on to looking out for the recovery of the economy. Remember, the market almost always moves sharply well ahead of the actual recovery; it often starts recovering while the economy itself is still getting worse. So do not mistake bad economic news for a reliable prediction of a market decline--the market decline for the economic news we see today happened months ago.

What now?

Naturally, everyone wants to know what to do now. We all prepared for bad markets, and we knew that sharp downward fluctuations were part and parcel of long term investing, but this is a bear market of historical proportions. We have seen worse in 12-month periods (1931-32 was much worse), but not often. This is heading for the record books on a calendar year basis, but it ain't over 'til it's over, and this wild ride may have a few surprises left in store for us.

If you look at the attached slide, kindly created by our friends at DFA, you can easily see that past sharp downturns have always been followed by recoveries, usually big ones. We all know that. But we have to get past the bottom, and we don't know where it is.

There are a few other facts to keep in mind:

- The expected success rate of your financial plan will drop sharply after a downturn, but will rebound with the market.
    - It will rebound even faster if you spend less/invest more while the market is down.
    - If you go to cash or bonds at the bottom, you may well *never ever recover.*
- The pain is worst just before the end.
- Investors in large numbers jump out of the market near the bottom, when the pain is greatest, and miss the recovery. You only need to miss a few of the best days of the recovery to miss most of it. It happens fast.
- Investors tend to jump in when they feel better, after the market is up. This pattern never seems to change.

Bottom line is that we are here, it is very difficult, the recovery will come but maybe not for a while, or maybe tomorrow. We all wish we knew the timing. It is too late to get out to avoid losses.

Getting out now makes sense only in a total meltdown scenario. Remember, even during the great depression, the market recovered very sharply (e.g., over 50% in 1933). So this will have to be a lot worse than that to justify selling now. Do you really see unemployment greater than 25%, breadlines and villages full of homeless people?

Existential question and the conclusion

Why does the market behave this way? Why does it plunge one year and race to new heights the next? And how does it continually manage to confound the pundits and fool just about everybody (even Warren Buffet sometimes!)? And where will the bottom be?

I don't know. Those really are academic questions. What we know is, this is investing. At the (mercifully few) moments like these it is painful and scary--we see our life savings, our pension plans, our endowments and foundations, dropping in value before our eyes. We are gripped by fear and we want to quit.

Don't.

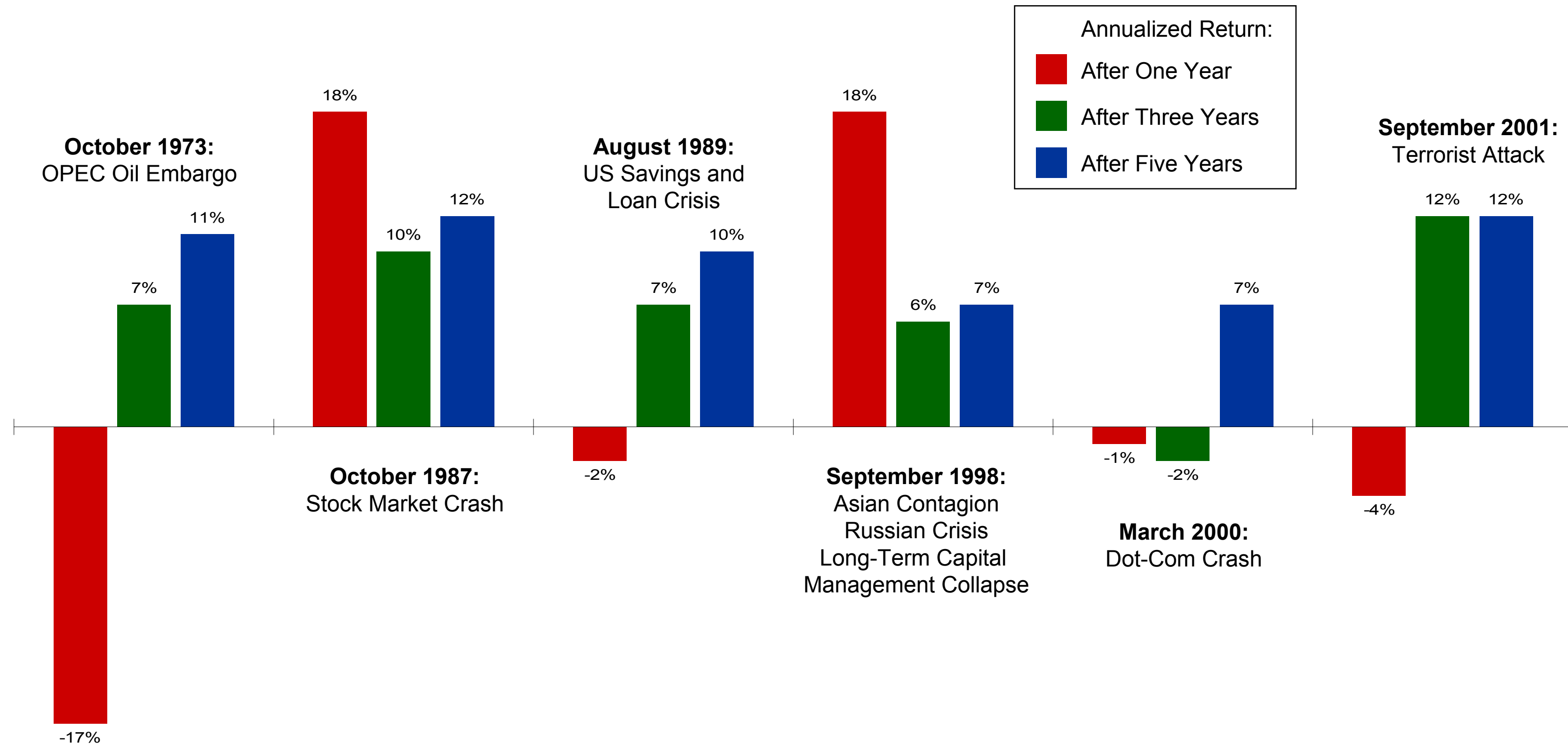
Roger C Hewins III

Hewins Financial Advisors, LLC. is an SEC registered Investment Advisor ('Hewins"). Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this letter, will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio. Moreover, you should not assume that any discussion or information contained in this presentation serves as the receipt of, or as a substitute for, personalized investment advice from Hewins. For our Clients, please remember to contact Hewins if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services. A copy of our current written disclosure statement discussing our advisory services and fees remains available for your review upon request.

S1385.1

The Market's Response to Crisis

Performance of a Normal Balanced Strategy: 60% Stocks, 40% Bonds



Normal Balanced Strategy: 42% US equity indexes, 18% non-US equity indexes, 40% fixed income indexes.

The S&P data are provided by Standard & Poor's Index Services Group. Fama/French data provided by Fama/French. Dow Jones Wilshire data provided by Dow Jones Indexes. MSCI data copyright MSCI 2008, all rights reserved. International Small Cap Index and International Small Cap Value Index compiled by Dimensional from StyleResearch securities data; includes securities of MSCI EAFE countries in the bottom 10% of market capitalization, excluding the bottom 1%; market-cap weighted; each country capped at 50%; value includes the upper 30% book-to-market range; rebalanced semiannually. The Merrill Lynch Indices are used with permission; copyright 2008 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. Lehman Brothers data provided by Lehman Brothers, Inc. Citigroup bond indexes copyright 2008 by Citigroup. Indexes are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Not to be construed as investment advice. Returns of model portfolios are based on back-tested model allocation mixes designed with the benefit of hindsight and do not represent actual investment performance.

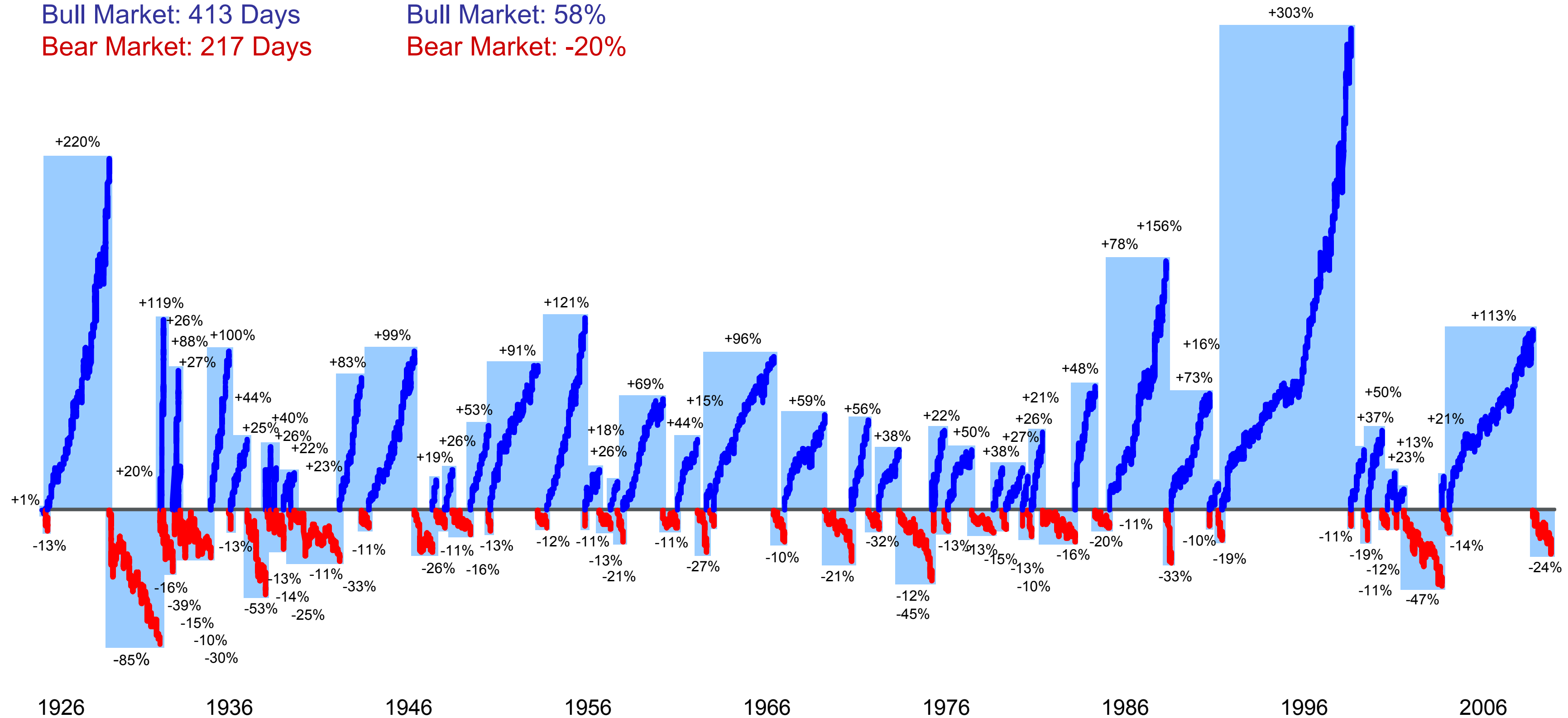
S1370.3

Bull and Bear Markets

S&P 500 Index

Daily Returns: January 1, 1926-September 30, 2008

Average Duration	Average Return
Bull Market: 413 Days	Bull Market: 58%
Bear Market: 217 Days	Bear Market: -20%



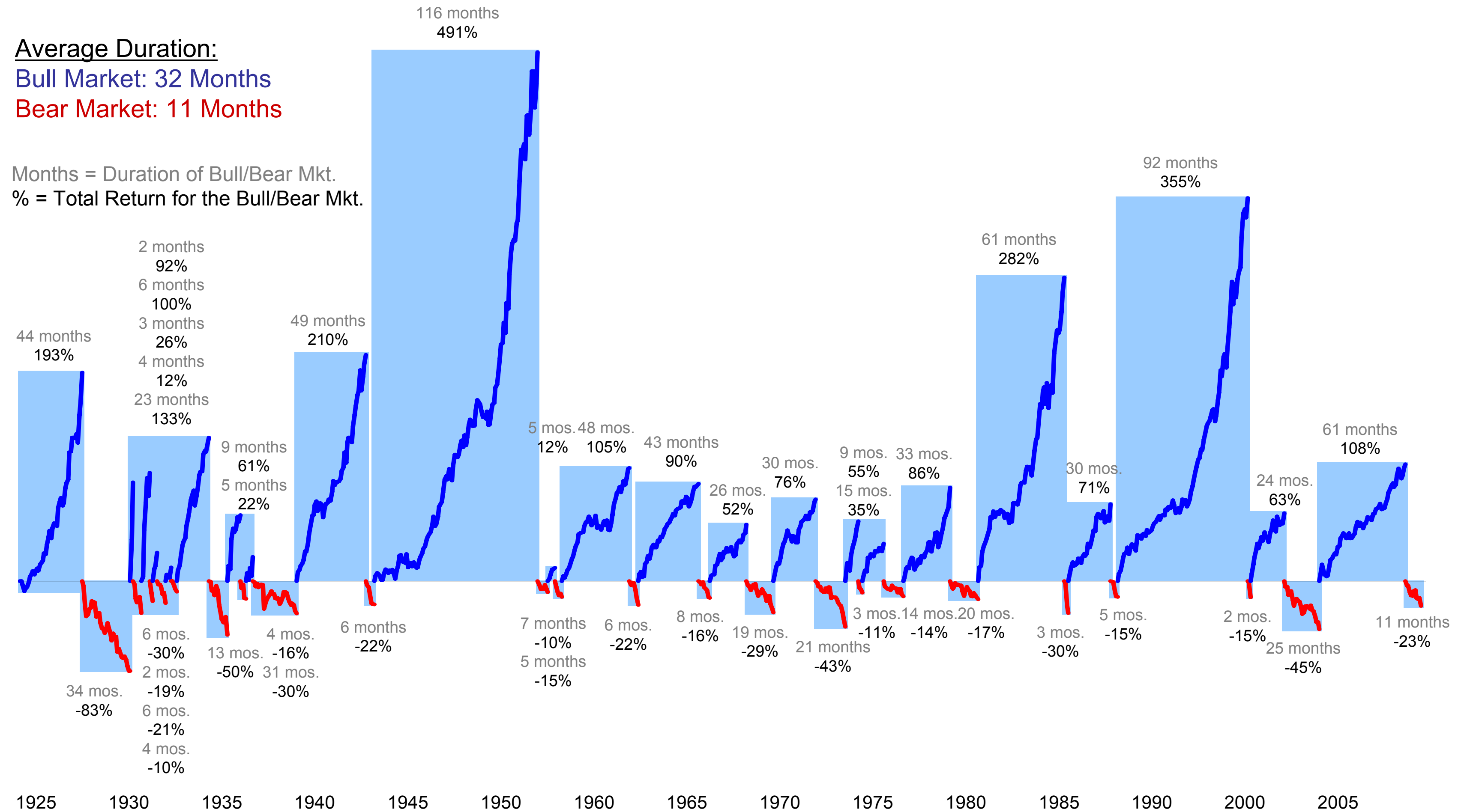
The S&P data are provided by CRSP (January 1, 1926-August 31, 2008) and Bloomberg (September 1, 2008-September 30, 2008).
Returns include reinvested dividends.
Bull and bear markets are defined in hindsight using cumulative daily returns. A bear market (1) begins with a negative daily return, (2) must achieve a cumulative return less than or equal to -10%, and (3) ends at the most negative cumulative return prior to achieving a positive cumulative return. All data points which are not considered part of a bear market are designated as a bull market.
Performance data represents past performance and does not predict future performance.

S1370.3

Bull and Bear Markets

S&P 500 Index (USD)

Monthly Returns: January 1926-September 2008



The S&P data are provided by Standard & Poor's Index Services Group.

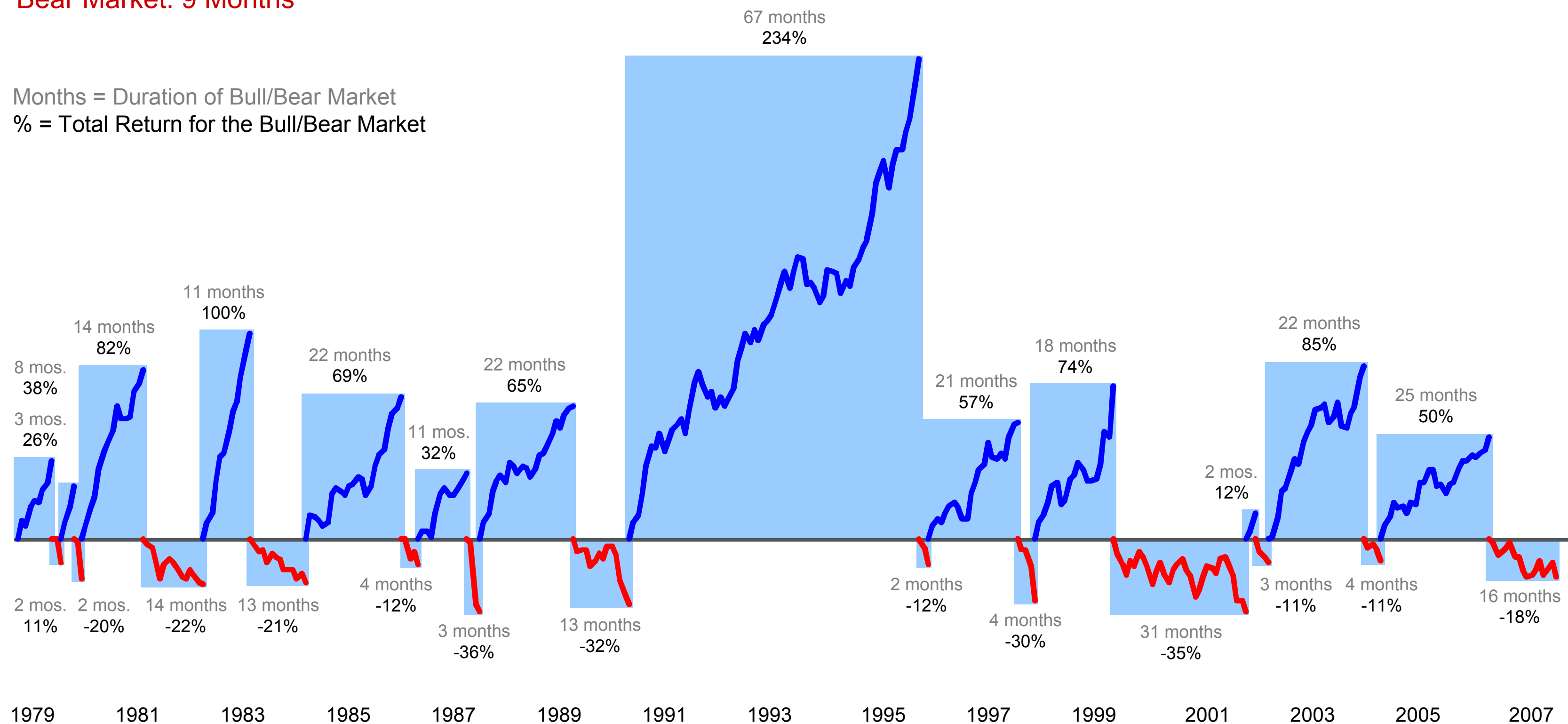
Bull and bear markets are defined in hindsight using cumulative monthly returns. A bear market (1) begins with a negative monthly return, (2) must achieve a cumulative return less than or equal to -10%, and (3) ends at the most negative cumulative return prior to achieving a positive cumulative return. All data points which are not considered part of a bear market are designated as a bull market.

S1370.3

Bull and Bear Markets

Russell 2000 Index (USD)

Monthly Returns: January 1979-September 2008



Russell data copyright © Russell Investment Group 1995-2008, all rights reserved.

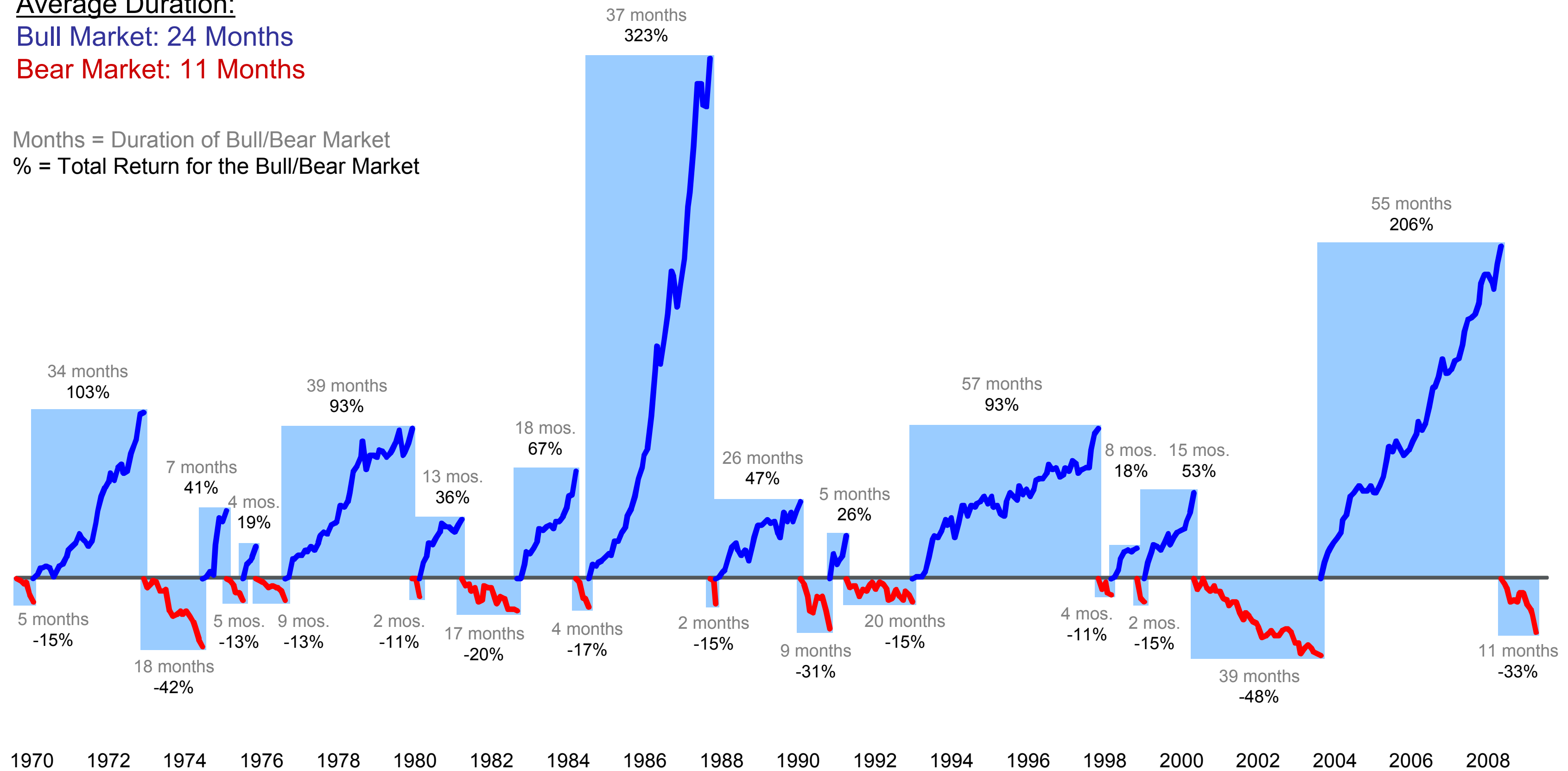
Bull and bear markets are defined in hindsight using cumulative monthly returns. A bear market (1) begins with a negative monthly return, (2) must achieve a cumulative return less than or equal to -10%, and (3) ends at the most negative cumulative return prior to achieving a positive cumulative return. All data points which are not considered part of a bear market are designated as a bull market.

S1370.3

Bull and Bear Markets

MSCI EAFE Index, Net Dividends (USD)

Monthly Returns: January 1970-September 2008



MSCI data copyright MSCI 2008, all rights reserved.

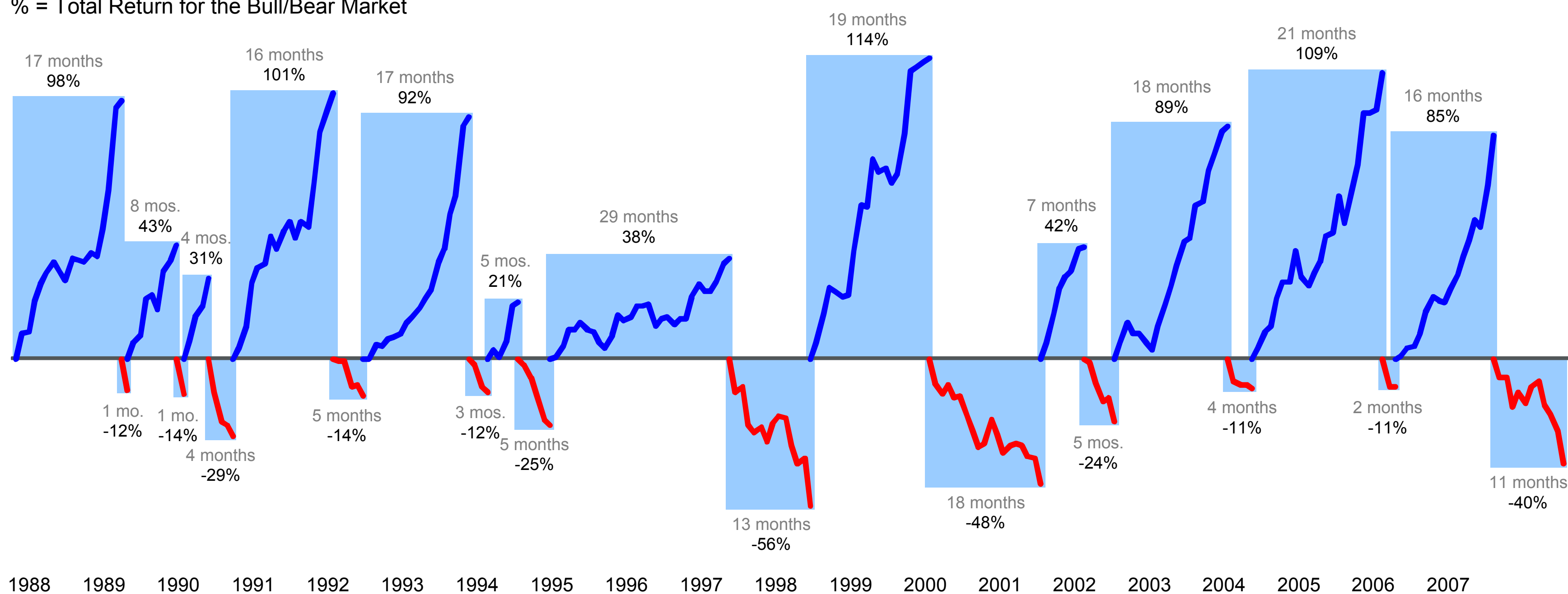
Bull and bear markets are defined in hindsight using cumulative monthly returns. A bear market (1) begins with a negative monthly return, (2) must achieve a cumulative return less than or equal to -10%, and (3) ends at the most negative cumulative return prior to achieving a positive cumulative return. All data points which are not considered part of a bear market are designated as a bull market.

S1370.3

Bull and Bear Markets

MSCI Emerging Markets Index, Gross Dividends (USD)

Monthly Returns: January 1988-September 2008



MSCI data copyright MSCI 2008, all rights reserved.

Bull and bear markets are defined in hindsight using cumulative monthly returns. A bear market (1) begins with a negative monthly return, (2) must achieve a cumulative return less than or equal to -10%, and (3) ends at the most negative cumulative return prior to achieving a positive cumulative return. All data points which are not considered part of a bear market are designated as a bull market.