

## We Share Your Concern!!

On behalf of the entire team at DB&B Financial Services, please know that we understand and share your concern with regard to our financial markets, the world economy and the safety of your portfolios. Much has changed in the last two months and even the last three weeks around the world. During these turbulent times, we have been busy reviewing all positions held in portfolios to determine the best course of action for both short and long term financial health.

It is human nature to be concerned about events transpiring in the financial markets and the world today, especially when recent events are drawing comparisons to the Great Depression. However, the Federal Reserve and US Treasury have been working feverishly to ensure that this crisis does not grow to become as severe or as deep as the 1930's. They have improved liquidity by adding money to our system in order to free up credit markets. In addition, they've added safety by increasing FDIC insurance for CD's and by guaranteeing money market funds for the next 12 months. They've even coordinated a world-wide effort to lower interest rates. Although it's too soon to tell how long these efforts will take to nurse our markets and economies back to health, they will go a long way toward avoiding a total financial collapse and a deep, protracted depression.

In times like these, it's prudent to step back and gain some historical perspective. In the past, recoveries from financial crises and economic downturns have varied in both length and depth. There have been sharp 3-month corrections (1957, 1987 & 1990) and declines that lasted over 18 months (1968, 1973, 1980 & 2000). Bear markets over the past 50 years have declined (on average) 32%, with 10% occurring in the final month. We have seen this happen recently with a total decline of 37%, from last year's high, and a decline of 22% in the last 30 days (as of October 9). However, rebounds are typically sharp, averaging 15% in the following three months. After the bottom was reached in 1929, the market rose 42% over the next twelve months. After the largest one day percentage loss on October 18, 1987, the gain was 23% a year later. And after the bottom was reached due to the September 11<sup>th</sup> terrorist attacks, the gain was 33% some 14 months later.

Although emotions and fear are prompting investors to sell, fundamentals and valuation are pointing to a very cheap and terribly oversold market. Even if we discount next year's expected earnings by 20% (building in a safety net for a softer economy), the S&P 500 still trades at historically low levels. Additionally, the dividend yield on the S&P 500 stands at 3.40%, which is higher than the five year treasury yield of 2.70% and nearly as much as the ten year treasury yield of 3.66% (all figures as of October 9). These valuation measures point to a market that is consumed in fear and emotion while completely ignoring fundamentals. Once rationality returns to the markets (and fearful retail investors have emotionally sold out), good companies and quality investments will be rapidly rewarded on the upside as institutions stampede into the market. Resist the temptation to sell at the bottom and move into cash or fixed income at extremely low yields. Hang in there! We believe the bottom is near and there are numerous bargains to be had in the market.

The team at DB&B Financial Services remains available to meet and talk with you regarding the market or your portfolio at any time. Please don't hesitate to call if you have any questions or if we can do anything else for you at this time.



**Kevin Vandenberg MBA, LIFA**  
Director of Managed Portfolios

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### YEAR TO DATE PERFORMANCE

**Dow Jones Industrials: -16.6%**  
**S&P 1500 Composite: -19.7%**  
**S&P 500 (Large Cap): -18.5%**  
**S&P 400 (Mid Cap): -14.3%**  
**S&P 600 (Small Cap): -7.9%**  
**Int'l Developed Mkts: -29.7%**  
**Int'l Emerging Mkts: -36.8%**

### YIELDS & RATES

**2-Yr T-Bond Yield: 2.00%**  
**5-Yr T-Bond Yield: 2.98%**  
**10-Yr T-Bond Yield: 3.85%**  
**30-Yr T-Bond Yield: 4.31%**  
**30-Yr Mortgage Rate: 6.00%**  
**15-Yr Mortgage Rate: 5.75%**

*“The only safe haven was U.S. T-Bills, which traded negative in September as fear gripped investors to the point of panic (investors were paying the Treasury to hold their cash for 30 days—thus a negative return).”*



**Ted Sarenski CPA/PFS, CFP**  
President, CEO

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### Quarter Summary

Portfolio managers and investors alike are eager to close the books on last quarter. The markets witnessed unprecedented volatility that hit all sectors and all asset categories. Essentially, there was no place to hide. Companies went bankrupt, bond holders were left with nothing, even a couple of money market funds broke the buck, or lost value. The only safe haven was US T-Bills, which actually traded negative in September as fear gripped investors to the point of panic (investors were paying the Treasury to hold their cash for 30 days—thus a negative return)!

The returns experienced by even the best and most fundamentally sound companies have been painful. However, this provides an opportunity for future purchases and capital gains. We're confident that the market will return from its extremely oversold territory and the initial surge may be close to 10-15%. Normally, a 50% retracement is not unusual at the outset. The funds and the individual stocks we own in portfolios are of high quality and should handily participate in the recovery.

The good news to the financial market downdraft is that many commodities (and input costs to businesses) have declined substantially. We believe this will help consumers and businesses somewhat, but an economic stimulus plan and tax cuts would help our economy gain its feet even quicker. Let's hope that politicians and our next President understand these things and come through for consumers and businesses alike.

In closing, we're convinced that the United States will pull through this current crisis, and probably before many other countries around the world. The Federal Reserve and the US Treasury have steadfastly promised that they will do everything possible to stave off a revisit to the painful experience of the 1930's. We must remain patient and disciplined, focus on quality and maintain a long-term perspective with regard to the overall financial markets.

## **Fixed Income—It MUST Be Safe, Right??**

The equity markets are in turmoil, dropping over 20% in a twelve day period to begin the month of October. Year-to-date through Friday, October 10<sup>th</sup>, nearly all equity markets were down over 40% and the gold index was down 44% in the same time period. Bonds must be the safe place to be if equities and gold are down that much since the first of January. After all, don't investors flock to bonds when stocks are out of favor?

The intermediate-term investment grade bond index, the category in which most of the individual bonds we purchase are classified, is down 7.61% from January 1<sup>st</sup> through October 10<sup>th</sup> of this year. General municipal bonds are down 9.14%, high-yield municipal bonds are down 13.61% and high-yield corporate bonds are down 21.89% in the same time period. These are bonds aren't they? Yes, these are bonds and this year's markets have illustrated to all investors that bonds can be as volatile as stocks when there is uncertainty.

The uncertainty that exists in the bond market this year stems from the financial crisis at hand. If banks need the federal government's backing to remain solvent and free up the credit markets, then how are corporations or local municipalities going to honor their debt obligations? Risk, a concept more commonly associated with stocks, is a concern for bond investors also. Confidence in our banking and credit system has been shaken this year, causing the skittish investor to sell bonds in municipalities, corporations and banks, and to purchase treasury bills backed by the United States government. When there are more sellers than buyers we get a decrease in value, since the buyer wants to purchase at a discounted price to offset the perceived greater risk.

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**Gail Gardner MBA, CFP, ChFC**  
Director of Financial Planning

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We only purchase A-rated or better bonds, so shouldn't that give us security? We thought so, but we've lost our confidence in the rating agencies. We have in our files a report dated March 2008, from Moody's, a bond rating agency, giving Lehman Brothers' bonds an A1 rating and stating that the company will get stronger as the year passes and that the worst is behind it. Five months later, Lehman Brothers filed for bankruptcy. Obviously Moody's erred in their March report, yet investors across the United States relied on such independent, third-party reports to make investment decisions.

We are aware, at DB&B Financial Services, LLC, that bonds can go up and down in value and that you, our fixed income investor, are relying on your bond portfolio to produce income. The bonds you hold are still paying the interest promised. We are only buying individual issue bonds now if they are of a short-term maturity, since the shorter the term, the lower the volatility. We may also purchase bond funds, where we can spread the risk of fixed income investing over many hundreds of bond holdings. The interest rates offered by these fixed income investments are low today. It will take time for confidence to be restored and for interest rates to become more competitive. Regardless of your target allocation - be it stocks, bonds or a combination - for money that is needed in the next five years, cash or money market funds is the place to be.

### Long Term Focus Best Approach to Current Market

The credit crisis and resulting market turmoil that we've experienced recently provide all of us, as investors, with an opportunity to gut-check our risk tolerance. Are you the one who has seen it all before and pays no mind to the media portrayals of doom and gloom? Do you know that it's just a matter of time before your investments recover their intrinsic value, so you ignore the herd's rush to sell? Do you see the current crisis as a buying opportunity? Or are you sick with worry and losing sleep at night wondering how you'll make ends meet if - no, when - the bottom finally falls out? Are you stocking up on staples and ready to defend your home? Most likely you're somewhere in between - and indeed you should be! Either way, now is the time to ask yourself, do you have the nerves, or the time, to ride out the *next* big market downturn? These are times when risk tolerance is defined; not when the bulls are running and it seems like only glory and good times are ahead. Now is not the time to panic. Now is not the time to sell. But it is a good time to decide what mix of investments would have given you a reasonable degree of comfort given the current situation. Maybe you're happy with your current mix. If not, decide how much more you'd prefer to have in fixed investments and write it down, or better yet, call us and let us know. Then, when the market recovers, we can adjust your portfolio to the mix that matches your risk tolerance. There's a catch though: studies show risk tolerance changes with market conditions. You may think you're more aggressive than you really are once things start looking better.

The Federal Reserve has to balance the threat of inflation against the threat of recession. They want to keep inflation under control, but still have the economy grow. As investors, it's our job to balance the threat of inflation against the threat of recession. We want to outpace inflation, or at least keep up, but we don't want to risk losing investment principal. All this in a marketplace that is increasingly unpredictable in light of globalization and competition with developing economies. Market timing, or the practice of buying and selling in an effort to outsmart the market, may be tempting and may even sometimes be profitable, but the strategy has proven to fail on average. It simply isn't possible to be right about the direction of the market at all times. There are too many variables in the equation for even the best economists to predict what's going to happen with much degree of certainty. I've read and attended countless economic forecasts each year and only a small handful of them prove to have had much predictive value.

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We know the market has downturns, we just don't know when they'll occur or how long they'll last. History tells us, over a given time frame, the chance of the market going up increases with time. If this proves to be the first time in history that a 10 year investment horizon didn't produce a positive return, it may influence our perspective on risk tolerance and investment time horizons going forward, but it won't change our underlying philosophy. We will still do financial planning and asset allocation. We will still determine the investment time horizon based on individual goals, objectives and risk tolerance. And we will still invest long-term dollars in equity and short-term dollars in cash and fixed income investments. So the dollars will be there when you need them, and so you won't have to sell at the wrong time – when the market is down.

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**A reminder to all clients.....if you haven't had a chance to meet with us lately to discuss your portfolio, the market or other questions or concerns, please feel free to let us know. We would be happy to schedule a meeting at your convenience.**

**We are currently updating our client email addresses. Please be sure we have your current email address to help us keep you up to date on portfolio, market and event information. Feel free to call, or send it to one of our email addresses below.**

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