



# The Enrichment Group

KATHLEEN DAY & ASSOCIATES  
*Financial & Investment Strategies For A Lifetime*

Dear Client,

The markets are in turmoil. There is very little lending. Housing prices are still falling. Businesses are failing. Unemployment continues to rise. There's almost no sector of the market that is performing. It's sure been hard to keep from feeling despair or panic.

I'd like to give you a framework for thinking about what is happening that may help keep your fears in perspective.

First, separate your concerns into those things that are likely to happen, those that could possibly happen and those that are really unlikely. Worrying about the last two categories, especially those things that are really unlikely, is unproductive. There are so many things that are unlikely, although remotely possible, that if we spent our days worrying about them, we would never smile.

Look at those things that are likely and unlikely. Could the Dow go lower? Could the entire market go to zero? It's not likely that all the businesses in the world would be worthless. It's not likely that you could lose everything. Don't worry about the unlikely.

Suppose we agree that the Dow could go lower. Can you control the Dow? Of course not! Can you control Congress? Can you control housing prices?

Here are some of the things you can control. You can cut back your spending and distributions so that you preserve your portfolio. Even small changes in distribution rates can make a big difference. You can decide not to sell your house until the real estate market recovers.

You can turn off the TV. You can take a walk and enjoy this beautiful weather. You can count your blessings and be grateful for the things you have and the people in your life. You can cook dinner instead of going out. You can postpone your next vacation. You can avoid buying things you don't absolutely need. You can watch a movie at home or read a good book.

You can't change the markets. You can't change the economy. You **can** change how you think and behave.

We have been taking steps to protect you. If you are taking distributions, you do have enough cash and fixed income to make those distributions for at least two years, even now. We will not need to sell good funds into a bad market. We have about 20% of your portfolio in hedges. These are strategies designed to "hedge" the markets by employing

defensive tactics. Some of them make money when the markets go down. Others hold oil, gold and natural resources. Most portfolios only have about 30-45% in unhedged equities. We have lightened up the international equity component of your portfolio.

We anticipate that, over time, the enormous budget deficit will result in higher interest rates and higher inflation rates. We are watching for the right time to adjust the bond component of your portfolio into inflation protected assets that will perform better when interest rates rise.

We are evaluating a new asset class called structured notes. This class is new to our portfolios, but not new to the global market place. These are CDs or bonds which, instead of having a stated interest rate, might have a return based on a percentage of the performance of an index. It's a way to have principal protected capital with returns based on market performance. These are fairly complicated instruments, but we think they will have a real value in a market that continues to be volatile.

I know how very difficult it has been watching your portfolio value fall. My portfolio is much like yours and I hate to see the value of my retirement portfolio falling. I'm sure our advice to hold tight has felt ineffective and redundant. In evaluating that advice, I think it is important to equate the equity markets with the real estate markets. If your house value is down hundreds of thousands of dollars, but you don't need to sell now and you know that your house has an intrinsic value which is greater than its current market value, you just ride it out. The same is true with the stock market. As long as the equities you own have a real intrinsic value which is greater than the current market value, the most appropriate response is to ride it out, painful though it is. At some point, investors will realize that stocks are a real value and the trillions of dollars sitting on the sidelines will come into the market.

You have to be concerned about your future, looking at a nest egg which is much smaller than any of us had thought it would be. This global crisis was brought about by forces beyond the control of any of us. Greed, corruption, leverage, and overspending have created a situation that no one anticipated. Our pledge to you is to work with you to create a plan for the most successful future possible and to continue to protect your portfolio in the best way we know how.

If I only had a magic wand...

Sincerely,



Kathleen Day, CFPTM, CFA, MBA