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Reflections on the Market and Outlook

It's two weeks from the end of the third quarter in what continues to be a most eventful year for stock markets and the economy.

It's also about a year since the weekend that shook the foundations of Wall Street and of the global financial system – when Lehman Brothers collapsed, Merrill Lynch vanished as an independent entity and AIG was taken over by the U.S. government.

In light of that, we thought it might be worthwhile to briefly summarize where we've been this year, where we are today and the prospects for the period ahead – and also to highlight some lessons from last year's financial collapse.

Where we've been

Six months ago, in early March, it truly did feel like the world might be coming to an end – talk of a return to a Great Depression like economy dominated radio, television and newspaper. Understandably, fear was rampant – and stocks responded to these nightmarish scenarios by hitting the lowest levels in years, with financials especially hard hit.

Although no one knew it at the time, that turned out to be the bottom. Since then, we've seen the economy move back from the precipice – there is a growing consensus that we'll return to economic growth in the second half of this year. The Economist recently ran a cover story discussing the extent to which the economic recovery was led by Asia.

As a result, we've had a strong recovery in markets – from their bottom in the beginning of March, stock markets are up 50%, retracing a good portion of the losses since last fall.

In the meantime, here are six lessons from the last twelve months:

1. We were reminded of just how volatile stocks can be.
2. And of the importance of true diversification.
3. Many investors discovered that they're less comfortable with risk and volatility in their portfolio than they had believed.
4. Investors were also reminded of the need to focus on what they can control – understanding cash needs and thinking through how much risk they can live with to fund those needs.
5. In some cases, investors began rethinking retirement plans as a result.

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6. Finally, we were reminded that in today's world, we need to expect the unexpected.

Where we are today

18 months ago, the market was characterized by rampant optimism. The stock markets had hit new highs in late 2007 and any concerns were set aside as minor annoyances.

By contrast, six months ago the market was overwhelmed by absolute pessimism – there was no sign of hope anywhere.

Today, the market is somewhere between those two extremes and many investors can be characterized as extremely nervous.

As a general rule, a certain level of healthy anxiety is positive – what gets investors in trouble is an excess of either optimism or pessimism. While today's mood may be erring on the side of being a bit too pessimistic, being cautious in the current market makes sense ... provided that prudent caution doesn't cross the line into panicked inertia.

The outlook going forward

In August, Business Week ran a cover story called "The case for optimism."

The premise was simple: Beyond the issues facing the global economy, there are many underlying positives that give cause for optimism if we look out two and three years and beyond.

There are things happening under the surface that will drive economic growth ... and with that economic growth will come growth in stock prices. Examples include the positive impact of technology, the recovering housing market, the revitalization of economies and the incredible energy from the developing world's educated youth and emerging middle class.

Click here to access all the Business Week stories on The Case for OPTIMISM :

http://www.businessweek.com/magazine/toc/09_34/B4144optimism.htm?chan=magazine+channel_top+stories

<http://greenlightadvisor.com/advisor/goto/http://www.businessweek.com/magazine/toc/09_34/B4144optimism.htm?chan=magazine+channel_top+stories>



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And here to view a three minute video with interviews with CEOs of Dow Corning, Eastman Kodak and Intuit.

http://feedroom.businessweek.com/?fr_story=34b1f5ab213d48a160a767c9c6c50d091f6cc7a3

<http://greenlightadvisor.com/advisor/goto/http://feedroom.businessweek.com/?fr_story=34b1f5ab213d48a160a767c9c6c50d091f6cc7a3>

In Closing....

In 1907, U.S. financier J. Pierpoint Morgan singlehandedly averted a banking panic among U.S. investors. Later in life, someone asked him his best guess on the direction of markets. His answer: "They will go up and they will go down."

One hundred years later, that's still the best answer to someone looking for a short term market forecast. No one can predict market movements in the immediate period ahead – all we can do is understand clearly how much short term volatility we can live with, adjust our portfolios accordingly and stay focused on the horizon as we deal with the rough waters. No one likes volatility ... but for most of us it's the necessary price to arrive at our ultimate destination.

Thank you for the continued opportunity to work together – remember, Dover is always here should you have any questions or wish to talk about anything related to the sound processes and principles around efficient investing.



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