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To: pwinter@fiveseasonsfp.com
Subject: "Seasonal Musings" from Five Seasons Financial Planning LLC

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Seasonal Musings

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Hi Paul,

With the stock market swinging wildly on a daily basis, it's easy to get caught up in headlines, overlook positive developments, and lose sight of the big picture:

1. **Stocks are cheap.** By several measures, stock markets here and abroad are the most attractive they've been since the mid-80's. Even more encouraging, these valuations are drawing corporate insiders, and some of the world's richest and most successful investors, to the table to buy equities.

"The financial world is a mess, both in the United States and abroad. Its problems, moreover, have been leaking into the general economy, and the leaks are now turning into a gusher. In the near term, unemployment will rise, business activity will falter and headlines will continue to be scary.

So ... I've been buying American stocks.... If prices keep looking attractive, my non-Berkshire net worth will soon be 100 percent in United States equities."

---- Warren Buffett, in a 10/17/08 NY Times Op Ed

2. **Bonds are cheap.** In many respects, some sectors

of the bond market are even more attractive than the stock market. Bear markets have a way of punishing those sectors of the financial markets that have performed most excessively in the prior bull market. This time around, lesser quality credits like junk and emerging markets bonds, and subprime mortgages, have been savaged.

But now we've swung from one end of the valuation spectrum completely to the other. While investors were perfectly content to throw money at these sectors a year ago when they yielded 6-7%, now that they yield 10-15% and more, these same investors want their money back. Bonds were priced for Nirvana; now they're priced for Armageddon. Fair value is most likely somewhere in between.

3. **Panic is Good.** Contrarian investors start licking their chops when the investing public panics. Mutual fund investors as a group are terrible market timers. Historically, they become most aggressive at market tops and redeem their shares at market bottoms.

Record inflows into equity mutual funds were set late in 1999 and early 2000 just before the tech bubble burst. And the last time before now that investors redeemed stock mutual funds en masse was at the lows of the last bear market in 2002. This October, we've experienced record outflows from both stock and bond mutual funds (and probably from hedge funds as well).

4. **Volatility is good.** The volatility we have been experiencing actually in day-to-day market swings and implicitly in options pricing is literally off the charts. But this also tends to be a positive contrarian signal. Spikes in volatility tend to accompany market bottoms, while low volatility is often a sign of market complacency. Interestingly, we experienced record-low measures of volatility during the bull market ending last year, an indication of the disregard for risk back then on both Wall and Main Streets.

"Short-term volatility is greatest at turning points and diminishes as a trend becomes established." ---- George Soros, billionaire investor

In sum: there's no doubt that most of the economic indicators recently released have been terrible. And certainly, market gyrations in the last few weeks have not been for the faint of heart. But it's also one of the ironies of investing that crisis presents opportunity. By the time it's apparent to you and me that economic fundamentals and market sentiment are improving, stocks and bonds will in all likelihood be markedly higher.

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Best wishes,

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