

Weekly Commentary

November 21, 2005

The Markets

It may not feel like it, but the Standard and Poor's 500 Index and the Nasdaq Composite Index both hit four and a half year highs last week, according to data from MarketWatch, Inc.

You have to go back to the summer of 2001 to find stock prices in the U.S. as high as they were last week. That is the good news. The bad news is the overall stock market is still below its all-time high set in early 2000. Historically, the returns in the stock market have been "lumpy." It is kind of like the old saying, "two steps forward and one step back," except in the case of the stock market it could be one of several variations on that theme. For example, if you substituted "years" for "steps", then here is a sampling of what a few periods over the past 20 years look like using the Standard & Poor's 500 Index as our market proxy, according to data from Callan Associates.

- From 1985 – 2004 "Five years forward, one back, nine forward, three back, two forward"
- From 1990 – 2004 "One year back, nine forward, three back, two forward"
- From 1995 – 2004 "Five forward, three back, two forward"
- From 2000 – 2004 "Three back, two forward"

You may have noticed that over the past 20 years, the stock market experienced only four down years. Unfortunately, three of those four down years happened within the past five years. Prior to 2000, investors were somewhat spoiled with long stretches of positive annual returns. Although past performance is no guarantee of future results, if we invest in the stock market, we have to be willing to "take our lumps."

Returns through 11/18/05	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrials	0.8%	-0.2%	3.0%	8.3%	0.6%	8.0%
Nasdaq Composite	1.1%	2.4%	7.6%	16.9%	-5.0%	8.0%
Standard & Poor's 500	1.1%	3.0%	6.7%	11.5%	-1.5%	7.6%

Source: Yahoo! Finance, Barrons

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

3, 5 and 10-year returns are annualized. Assumes dividends are not reinvested.

WHAT CAN EDGAR ALLAN POE TEACH US ABOUT INVESTING?

Surprisingly, his short story, *The Purloined Letter*, offers us an excellent analogy for identifying one way to be a more successful investor. As you may recall, the story revolves around a letter stolen from an important woman, presumed to be the Queen. The Minister stole the letter as he and the person to whom the letter was about, were conversing with the important woman in the woman's bedroom. The important woman

saw the Minister take the letter and replace it with an unimportant letter of his own. She dare not say anything about it lest she make a scene in front of the person to whom the letter was about. With the stolen letter in hand, the Minister uses its contents to blackmail the important woman. The important woman contacted the local police to help her retrieve the letter and stop the blackmailing. Unable to find the letter, the local police turn to the esteemed Mr. Dauphin, a private investigator, to see if he can retrieve the letter.

Mr. Dauphin asks the local police if they have thoroughly searched the Minister's residence, figuring the Minister would keep such an important letter close to him. The local police respond that they have systematically searched every nook and cranny of the residence and can find no trace of it. Mr. Dauphin then takes matters into his own hands and visits the Minister at his residence.

Some time later, the local police visit Mr. Dauphin and tell him that the reward for producing the letter has just increased to 50,000 francs. At that point, Mr. Dauphin produces the letter and collects his reward. Stunned, the local police ask Mr. Dauphin how he found the letter. Here is where the story becomes quite ingenious and instructive for us as investors. Mr. Dauphin explains that the local police, while skilled investigators, only looked in places where *they* would have hidden the letter, i.e., in out-of-the-way nooks and crannies. Mr. Dauphin, on the other hand, said the proper way to deduce where the Minister hid the letter is to try to think like the Minister. The Minister, being a smart man, would know the police would look in all the hard to find places. So rather than hide the letter, the Minister might leave it out in plain sight, figuring the police would not think the Minister was "dumb enough" to leave something that important out in the open. Accordingly, during Mr. Dauphin's visit to the Minister, he noticed a crumpled letter out in the open and surmised it was the stolen letter. After concocting a commotion to divert the Minister's attention, Mr. Dauphin substituted his own letter for the stolen letter and hence, walked away with the reward.

Here is the lesson for investors. *Sometimes the best investments are right under our noses.* In an effort to gain an edge and appear sophisticated, many institutional investors employ armies of Ph.D.s to try to exploit every nook and cranny of the investment marketplace. In their zeal for the esoteric, they occasionally overlook the most obvious investment opportunities. These opportunities may be boring, unglamorous, and unappreciated, but they may be profitable in the end. By asking ourselves, "What would Mr. Dauphin do?" we may be able to uncover investment opportunities that are right in front of us yet still oblivious to the multitude of investors.

Weekly Focus – Gobble, Gobble

Can you imagine what it was like for the Pilgrims back in 1620? It was horrible. Nearly half of the Pilgrims died, and those who remained were living in dirt-covered shelters with little food. Fortunately, over the next year, some friendly Indians helped the Pilgrims learn to survive in their new environment. In 1621, things went much better.

To acknowledge this good fortune, the Pilgrims celebrated with a three-day meal, which included their Indian friends and family.

As we celebrate Thanksgiving this year, just imagine how far we have progressed in 384 years. What started with a handful of Colonists has grown into a country of 50 states with nearly 300 million people. Our economy has moved from agrarian, to industrial, to service based and generated approximately \$12.5 trillion in economic activity over the past year, according to the Bureau of Economic Analysis. While we do have problems never imagined by the Pilgrims, we indeed have much to be thankful for this Thanksgiving.

So as we celebrate Thanksgiving, let us count our blessings for today and look forward to a terrific 2006.

Best regards,
Russ Story, Certified Senior Advisor
Chris Tuten

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added.

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* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

* The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks.

* The Nasdaq Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.

* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

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