



December 31, 2008

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IN MEMORY OF DON FLEMING

As most of you know, Don passed away on November 30th. He will be missed by our firm and his many clients.

I came to Marietta in 1964 as a staff accountant for James B. Dunn, CPA. I married Jane later that year and decided I should obtain some life insurance coverage. Jim Dunn referred me to Don. I purchased my first life insurance policy from him. Don impressed me because he could explain the policy in terms the average person could understand.

Over the years, I purchased additional policies from Don and worked with him in helping other clients of the accounting firm obtain life coverage and retirement plans.

A few years later, Don saw an opportunity to start selling investment products in addition to life insurance. For several years he was among the leading sales associates for New England Life Agents. These efforts earned him the respect of his peers. Don often provided training and gave presentations at General Agency meetings and many new agents benefited from his expertise and interesting talks.

When Don's clients had purchased all the life insurance coverage they needed, he helped them begin to accumulate wealth. He helped many clients establish retirement plans. Many of our clients owe their comfortable retirement to Don for being persistent and providing them good advice.

I changed employers in 1971 and moved to Athens. During that time, I remained one of Don's clients. Betty and Don's wedding anniversary was near the same time as ours, and we always tried to have a

celebration dinner each year. We always looked forward to dinner at the Point of View and to Don's jokes (from notes in hand) and always had an enjoyable evening.

In 1986, I decided to change careers and contacted Don with the idea of joining him in the financial services business. He was interested and we came to an agreement, which I don't think was ever signed, and I joined the firm later that year.

Don was a good teacher and gave me the freedom to bring technology to the firm and make changes to adapt to the evolving world of the financial services business. He was very supportive of the changes I elected to make, as long as it did not materially change the way he wanted to do business. When he decided to slow down, our agreement was for him to have an office and be able to use our support staff as long as he wanted. He was still coming to the office regularly until a couple of months ago.

Don was persistent, a good communicator, and always professional. He provided excellent service to his clients, which we continue to do today. He always strived to keep reports and information provided to clients as simple and concise as possible.

Neal and I thank Don for all he taught us and for always bringing a positive attitude to the office, even when his health was not up to par. We will certainly miss him.



Important Information about Investing and Risk

The S&P 500, S&P 400 Mid Cap, S&P 600 Small Cap, NASDAQ Composite, Dow Jones Industrial Average, and MSCI EAFE index are unmanaged indexes. An investment cannot be made directly in an index. Past performance is not indicative of future results. Investing in any asset class involves the potential of losing money. All risks should be considered before making an investment decision.

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HOW MUCH HAVE YOU REALLY LOST

Ten billion dollars.

Seems like a nice, tidy sum, does it not? And what, you ask, does it represent? Well, in big, round numbers, it is the decline in the value of Warren Buffett's personal shareholdings in his Berkshire Hathaway, Inc., from its 2007 peak at about \$150,000 a share to its recent trough at \$84,000.

Now, take out a pencil and paper, because we're going to have a spot quiz. It'll be very simple; there's only one quiz question, and it's true/false:

“Over the last year, Warren Buffett lost ten billion dollars in the stock market. *True or false?*”

The answer, of course, is false. As he would be the first to tell you, he hasn't lost anything. Why? Because he hasn't sold. Berkshire Hathaway is a portfolio of ownership in good businesses. Some are public companies, of which Berkshire owns pieces (Coca-Cola and Wells Fargo, for example). Some are private companies which Berkshire owns outright (GEICO Insurance and Fruit of the Loom, for example).

In a fifty percent equity market decline, such as we have suffered in the past fourteen months, it's fair to say that everything goes down a lot. A great company like Berkshire, flush with cash and run by the greatest equity investor who ever lived, may go down a tad less than do most equities—off 44% vs. 52% for the S&P 500. But a 44% hit is still a staggering decline by any measure.

Maria Bartiromo of CNBC recently put that issue directly to Buffett. How did it feel, she asked him, to see his stock go down over 40%? Buffett allowed as how it felt pretty much the same as it did the half-dozen other times it's happened since he took over the company, upwards of fifty years ago. *The smile never left his face.*

That may be because Buffett is pretty confident that the ten billion dollars will ultimately be back—that as the great businesses Berkshire owns continue to grow and prosper through the years, their increasing earnings and cash flows will sooner or later show up in the price of the stock. In fact, that's always been the case, and one may cite several dramatic examples. Buffett “lost” \$347 million on Black Monday, October 19, 1987. Berkshire stock closed that day at \$3170.

A decade later, in just 45 days during the summer of 1998—when Russia defaulted, Long-Term Capital Management imploded and the emerging markets uniformly cratered—Buffett really stepped up in class. In those six weeks, he “lost” \$6.2 billion, as Berkshire stock closed out August at \$60,500.

This past year, as we've observed, Buffett “lost” \$10 billion, as Berkshire's stock price declined 44% to \$84,000 a share. Are you starting to see the pattern? If not, simply write down the three prices at which Berkshire stock bottomed at the end of Buffett's three biggest “losing” streaks of the last twenty-odd years: \$3170, \$60,500, and \$84,000. That exercise should convince you that, far from “losing” anything in these very significant bear markets, Buffett was simply experiencing temporary price declines, which were dwarfed by the wealth he accumulated when the long-term uptrend resumed.

Granted, Berkshire isn't typical. But it certainly is symbolic. The broad market didn't appreciate nearly as much as Berkshire did over the period since the bottom of the 1987 crash. But, even if you don't count dividends, at today's depressed levels (S&P 850 at this writing), the broad market is up about five times since its close on October 19, 1987. And there've been no fewer than three additional bear markets between that one and this one—during each one of which, people wailed about how much they'd “lost.”

Consider the possibility that you haven't lost anything until you sell out in a panic and lock in the loss. And that if you don't panic and don't sell, in the fullness of time a broadly diversified portfolio of quality equities will not merely erase the temporary “loss,” but will go on to accrete wealth for the patient investor as no other asset class has historically done. Consider this thesis... because history admits of no other conclusion.

The average retirement age in the US is 62, which means the average person retiring this year was born in 1946—the first year of the fabled baby boom. Many such investors are bemoaning how much they've “lost” over the last year or so, and this is only human. But just before you're tempted to give in to that psychology (“I've ‘lost’ X dollars, and I'd better get the heck out before I ‘lose’ any more!”), please consider this:

There have been thirteen bear markets in US equities between 1946 and now. That is, thirteen major declines in which frightened investors have added up their “losses” every night, to mounting horror. Today, as noted, we are late in the largest of those thirteen declines, and the broad market, as denominated in the S&P index, is around 850. (*continued on Page 3*)

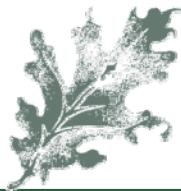
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It closed out 1946 around 18. And of course, that ignores dividends.

If one stayed broadly diversified among high quality equity holdings, there was really only one way for the long-term investor genuinely to lose anything. It was to mistake a temporary decline for a permanent loss, and panic out. But the market didn't do that to anyone. People did that to themselves.

A huge part of successful long-term equity investing is simply the decision not to do that to yourself.

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BEAR MARKETS SINCE WW II

If the closing value of the S&P 500 on November 20, 2008 turns out to be the bottom point of the current bear market cycle, we will have experienced a decline of just under 52%. This makes it the most significant decline since the close of World War II.

It is interesting to note, less than 20 years ago, the low point of the 1990 bear market is significantly lower than the current low experienced a few short weeks ago.

The "average" duration of time spent in retirement by a healthy 62 year old couple is thirty years. Compare the bottom of the 1978 bear market to the bottom this past November. Even after the turbulence, the market has increased by nine times.

Bear Markets Since World War II

Market Bottom	S&P 500	% Decline
		From Market Top
6/13/1949	13.55	-29.60%
10/22/1957	38.98	-21.60%
6/26/1962	52.32	-28.00%
10/7/1966	73.20	-22.20%
5/26/1970	69.29	-36.10%
10/3/1974	62.28	-48.00%
3/6/1978	86.90	-19.40%
8/12/1982	101.44	-27.80%
12/4/1987	221.24	-34.50%
10/17/1990	294.51	-20.40%
10/8/1998	957.28	-19.60%
7/23/2002	797.70	-44.50%
11/20/2008	752.44	-52.00%

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TO LISTEN TO OUR RECENT PODCASTS

TEN YEAR RETURNS

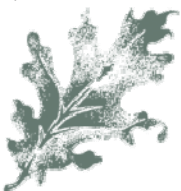
Throughout time there have been very few ten year periods, measured each calendar quarter when the S&P 500 - including the reinvestment of dividends - posted negative returns. According to the Leuthold Group, since the first quarter of 1936 (March 1926-March 1936) there have been seven ten-year periods with a negative total return for the S&P 500. There are 291 observations in their database.

If the ten-year returns were measured to the low point on November 20th, it would nearly MATCH the worst ten-year period in US stock market history (1929-1939). The cumulative loss over this current period is -23.59, or -2.66% per year.

REASONS FOR OPTIMISM

While the facts are rather sobering, there is some hope and potentially light at the end of the tunnel. (data courtesy of the Leuthold Group)

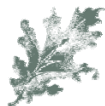
History shows following periods with dismal ten-year returns, the subsequent ten-year periods have been more kind. The worst such period posted an annual return of 7.74% per year. The best period generated a 15.58% annual compounded rate of return.



Please note, past performance is not indicative of future results. The only thing which is certain in the investment market is uncertainty.

Returns After the Worst Performing 10-Year Periods

Prior 10 Year Annual Compound Return	Period	Annual Compound Return	Total Return
-3.65%	Q2 1939 to Q2 1949	8.62%	129%
-2.79%	Q1 1939 to Q1 1949	9.10%	139%
-2.74%	Q3 1939 to Q3 1949	7.74%	111%
-2.54%	Q1 1938 to Q1 1948	11.76%	204%
-1.42%	Q1 1940 to Q1 1950	9.65%	151%
-1.42%	Q2 1940 to Q2 1950	12.19%	216%
-0.65%	Q4 1938 to Q4 1948	7.21%	101%
-0.10%	Q3 1938 to Q3 1948	8.12%	118%
0.18%	Q3 1940 to Q3 1940	12.57%	227%
0.20%	Q4 1937 to Q4 1947	9.61%	150%
0.23%	Q4 1939 to Q4 1949	9.09%	139%
0.44%	Q2 1938 to Q2 1938	9.52%	148%
0.49%	Q3 1974 to Q4 1984	15.58%	325%
0.71%	Q1 1941 to Q1 1951	14.47%	286%
1.24%	Q4 1974 to Q4 1984	14.76%	296%



YEAR END TAX INFO

Since 1992

April 15th will soon be upon us. Here are some important reminders to help you gather information for your income tax preparer.

MUTUAL FUND INVESTMENTS

If you have mutual fund investments in a taxable account, you will receive a **1099-DIV** for any distributions paid by the fund during the year. There will be some additional information with the 1099's which is very important. This information will include: interest from US Government Bonds, long and short term capital gains, and the percent of income from municipal bonds which is attributable to your state of residence.

Please make sure you keep this additional information for the preparation of your tax return.

If you own municipal bond mutual funds, please provide your tax preparer with a copy of your last quarterly statement for 2007. From this statement, your tax preparer can determine how much tax exempt interest you received during the year.

If you sold an investment during the year, the proceeds will be reported on a **1099-B**. You will need the cost basis. The fund company may provide this information,

but if they don't, we will. If you have not received the information by February 28th, please call us so we can get it for you.

IRA'S AND QUALIFIED PLANS

If you made a withdrawal from your IRA or qualified plan, you should receive a **1099-R**. You should give this form to your tax preparer.

Some companies will send 1099-DIV's for assets in your IRA. Please separate these from the other tax forms you receive. These forms for your IRA

do not need to be included with your tax return.

If you or your tax return preparer have any questions about the tax forms you receive, please give us a call. We will be glad to help. If you schedule

your appointment with your tax preparer before we meet with you, please give us a call and we will get the information you need.

Special Note: The IRS extended the mailing deadline for 1099's from January 31 to February 15. Please plan your tax preparation appointments accordingly.



Today, an average consumer can buy a terabyte hard drive for as little as \$109.99 (a terabyte is 1,000 gigabytes, or one trillion bytes). In 1992, a terabyte hard drive, if such thing existed, would have cost \$5 million.

In mid-2008, the four gigabyte flash memory chip in an iPod nano cost \$25. But back in 1992, four gigabytes of flash memory would have cost \$500,000, so the iPod Nano would have had to retail for around \$3 million.

The internet virtually did not exist in 1992. Monthly internet traffic was four terabytes. All the data traversing the global net in 1992 totaled 28 terabytes. Today, internet site YouTube alone streams 48 terabytes of data every 21 seconds.

In 1992, only a small percentage of Chinese citizens had ever made a phone call. Today there are twice as many mobile phone subscribers in China as there are people in the US.

The entirety of US-China trade in 1992 was \$33 billion. This year it will approach \$400 billion. Trade with India in 1992 was \$5.7 billion, but is now \$35 billion.

All world output in 1992 was \$20.4 trillion, about the size of today's output from the US, Japan and Germany.

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