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Your Money

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AVOIDING THE BIG MISTAKES

After rebounding from the early difficulties in the stock market (almost working its way back into positive territory for the year), the last two weeks of June saw a significant drop in stock prices.

The emotional rollercoaster evoked by the media coverage of the economy, oil prices, and stock market declines becomes overwhelming. It is easy to succumb to those strong feelings, and begin to look at what is perceived to be “safer havens.”

Buckling to your fears could be one of the biggest financial mistakes you will ever make.

A GROSS MISPERCEPTION

Most people perceive the biggest financial risk they face is a decline in stock prices. In reality it is not. The far bigger risk all of us face is the erosion of purchasing power and the potential loss of independence and dignity in retirement caused by inflation.

For example, many of us have experienced a one day 23% decline in stock prices (October 19, 1987). But none of us have ever seen a one-day or even a one-year 23% increase in the everyday prices we pay for things such as groceries and other goods and services.

Market volatility, by its nature, is sharp, sudden and terrifying. Erosion of purchasing power is slow, constant, and all but invisible on any given day.

This is the reason most people overestimate the probability of equities causing catastrophic principal loss. It is also the reason people abysmally underestimate the erosion of purchasing power over three potential decades of retirement.

This is why certain investments are touted as “safe.” While those investments are certainly less volatile than equities, they miserably fail to address the real risks all of us face. Alternatives such as CD’s, fixed annuities, or bonds do not adequately address our need for a growing stream of income over our lifetimes.

THREE TRUTHS

When we turn on the television, listen to the radio, or read our preferred periodicals, our attention is directed towards the immediate past days “market performance” and the near term prospects (mostly opinions) of what will happen to the market in the coming days. Market watching has become a spectator sport, and the instant emotional responses rival that of watching a football game.

What is often ignored are these three “financial truths” which should provide guidance to our thought process.

Markets can and do go down suddenly and significantly, but they’ve never stayed down. Since October 19, 1987, there have been three major bear markets (1990-91, 1998—albeit very short lived, and the granddaddy of modern bears: 2000-2002) and the market is roughly seven times higher than it was in 1987.

Inflation very rarely goes up much in any one year, but it virtually never stops going up. The example we’ve used to demonstrate this previously is the postage stamp. A first class stamp is almost three times more expensive today than in 1980.

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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, Lehman Brothers Aggregate Bond index, 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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ALL investments are income investments. Some are designed to produce income today, and some are designed to produce income in the future. You can be reasonably assured you will need more income in the future to maintain your lifestyle. We all invest for income, and we all must invest for *growth of income*...our independence and dignity depends on it!

THE KEY TO REAL-LIFE SUCCESS

The dominant factor to achieving successful real-life financial outcomes is the decisions you make.

There are many distractions which divert our attention away from the plans we have helped you forge which address both current day and future needs. When you make the decision to follow your plan, you give yourself the greatest opportunity to achieve the long-term results you desire.

Long-term financial goals do not change because the market goes haywire. Selling at the first sign of short-term adversity in the stock market is turning a blind eye to your lifetime financial plans and the continuing need for an income stream which will—at a *minimum*—keep pace with the continuously rising costs of living.

Nobody can say with absolute certainty the sun will rise tomorrow. However we can say with a very high level of confidence it will do so. It always has, and there is no real reason to believe tomorrow would be different.

We personally believe the same thing about the stock market. There is no absolute guarantee stock prices will rebound from their current funk and go on to set new highs. There is no absolute guarantee stocks will continue to be the asset class which over time provides investors the returns they need to outpace inflation. Equities have done just this for more than eighty years, and there is no reason to believe they won't continue to do so in the future. Remember for over eight decades, the declines have been temporary and the advance (at an average of more than 10% per year) has been permanent.

Please remember, what may feel like the easing of discomfort in the near term can really turn out to be one of the biggest financial mistakes you can make. In times like these, doing nothing is better than trying to do anything else. Your patience and perserverance to stick to the plans you have made will give you the greatest opportunity to achieve real-life financial success.

BY THE NUMBERS

11.8 . . .

Percent average annual return over the last twenty calendar years (1988-2007) of the S&P 500. (Direxion Funds)

7.2 . . .

Percent average annual return if you missed the twenty *best* performing days over that twenty year time frame. (Direxion Funds)

31 . . .

Percentage increase in the cost of eggs in the last year. (Money Magazine)

3.4 . . .

Trillion dollar increase in American personal incomes since 2001. (Economist, Brian Wesbury)

15 . . .

Percentage increase in construction of business related buildings (htoels, offices, power plants, and utilities) over the last year. (Nick Murray Interactive).

60 . . .

Percentage increase in earnings of the S&P 500 since the beginning of 2000. (Nick Murray Interactive)

55 . . .

Percentage increase in dividends of the S&P 500 since the beginning of 2000. (Nick Murray Interactive).



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