

Date: November, 2008
Memo to: Tarbox Clients
From: Laura Tarbox and Team
Re: Uncertain Times – Part 3 (Is *This* the Bottom?)

Absent any near-term recoveries, 2008 will be one of the worst years in history for stocks (domestic and foreign) since the Great Depression. Other asset classes such as real estate, commodities and even many bonds have also done poorly. There has been no place to hide. How much further until the market hits bottom?

The longest recession since World War II was 16 months. Assuming this recession started early in the year and it matches or slightly exceeds the longest postwar recession, it might be late Spring to late Fall 2009 before economic recovery begins. Since a stock market rebound typically *precedes* economic recovery, the market should begin its rebound before then. (Historically, it's turned up 60% of the way through a recession.)

While it would be nice if we were at or near the bottom, there is always a possibility that it could get worse. The stock market decline has anticipated a significant drop in corporate earnings but when revised estimates (likely lower) and actual earnings reports come out over the next month or two there may be further declines. It is also normal for the stock market to overshoot on the downside (as it does on the upside).

While no one knows for sure, some of the more noteworthy bears are seeing lots of buying opportunities.

Steve Leuthold was recently interviewed by Barron's magazine. His research firm looks at 28 different factors, including price-to-earnings (P/E) and price-to-sales, and he notes that several factors indicate we are at the point where markets have often bottomed out. In the past, from this level, the market has provided annual returns of 15.7% compounded over 3 years (total return) and 15.1% compounded over ten years (total return).

Many other well-known experts have similar views, and these folks are buying even though they understand the market could go down significantly further in the short-term. Stocks are now at the same valuations that existed at the 1990 bear market low. Relative to 30-year Treasury yields, the S&P 500 is priced to deliver the highest excess return since the early 1980s.

We realize this may not make it any less painful or stressful right now. But you know our point-of-view: *Abandoning properly diversified portfolios at this time, with the stock market already down by nearly half, is not a course of action that we recommend.*

We are all trying to keep in mind what is most important to each of us during this holiday season. Among many things, we are thankful for our relationship with you and for your trust in us.

Best wishes to you and your family for a happy Thanksgiving.