

Date: October 8, 2008

Memo to: Tarbox Clients

From: Laura Tarbox and Team

Re: Uncertain Times


The late economist John Kenneth Galbraith once said, "There are two kinds of forecasters: those who don't know, and those who don't know they don't know." We are clearly in uncharted territory and nobody knows how the current financial crisis will play out. So, with that in mind, what do we do?

In our memo of a few weeks ago, we talked a little about what happened and how we got here. Now we are all focused on the question "How bad can things get?" The markets are in panic mode, and that panic is feeding on itself - price declines cause fear which creates further declines, etc.

Recent events quickly resulted in a real "credit freeze" wherein individuals and businesses small and large were unable to get loans. When this happens, everything slows, and in some cases stops, very rapidly. As lines of credit are shut down, people can't buy new cars, car dealers go out of business, and pretty soon nobody is buying stuff at the mall. It hasn't taken long to see that this was not just a crisis on Wall Street - Main Street is very quickly and directly affected - and Main Street can afford it even less.

Over the history of our country (and in fact, the world), there are cycles of boom and bust. So although this is scary, it's normal. It's always "different" - which is why each historical scenario has elements of decline and recovery that were virtually unpredictable (except upon hindsight, of course!). I've always said that risk is the thing you can't or didn't see coming. Although it was not all that difficult to realize that there was a growing credit and real estate "bubble", I don't think anyone foresaw the way the "bust" has played out so far. (OK, maybe Warren Buffet, when he called credit default swaps "financial weapons of mass destruction" six years ago. Obviously, nobody was listening, as these derivatives ultimately grew to a value of more than four times that of the whole U.S. stock market before they "detonated".)

We are now asking ourselves how much of this calamity is already priced into the market. That's the million dollar question. It could get worse. At some point it will get better, and when it does, it will likely happen unexpectedly. The recovery may be triggered by an unlikely event or news, and it may happen before we really even notice it. But it will happen. So far, the end of the world hasn't happened. Black Monday in 1987, the tech crash in 2000, the terrorism of 9/11 - the markets recovered and we survived. We are a resilient country and we will figure this out.



If you study the markets over many years, you can easily see that it is always when things look the bleakest, just when everyone is giving up on things ever getting better, that the bottom is reached. We may be there, or close to there - or we may not. At some point, prices get so low that investors start buying again.

With the actions that the Federal Reserve and Treasury have taken in the past weeks, the seeds of recovery have been sown and we are optimistic that while there will most certainly be a recession, there will not be a depression.

We continue to actively monitor this evolving situation and make adjustments in your portfolios. We have and will continue to consider various actions as this plays out, and nothing is completely off the table, but we do not think this is a time to make changes based on emotion or panic.