



Park Piedmont Advisors LLC

Registered Investment Advisor

Helping to Achieve Clients' Goals with Indexed Investments

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SEPTEMBER 2008 COMMENTS

SEPTEMBER 2008 MARKET ACTIVITY (ending Tuesday, September 30th)

September 2008 is likely to be long remembered as the month the US government provided financial support for Fannie Mae, Freddie Mac, and AIG, but allowed Lehman Brothers to go into bankruptcy. In the private sector, Merrill Lynch was acquired by Bank America, Warren Buffett invested \$5 billion in Goldman Sachs, the failing bank Washington Mutual was acquired by JP Morgan Chase (which had previously acquired Bear Stearns), and Wachovia was acquired by Citibank. In the most far reaching action, the House of Representatives rejected the administration's plan to buy up substantial portions of troubled debt, a plan designed to provide a more comprehensive solution to the problems currently affecting the world's financial systems. (Other legislation on this matter is expected).

Not surprisingly, in the midst of all this turmoil, STOCK and most BOND prices declined substantially for the month. Stock prices experienced dramatic declines and advances, with the declines largely outweighing the advances. This extreme volatility provides new evidence that trying to time these markets is not advisable. The details of these declines are set forth in the chart on page 2, and the discussion on page 3.

It is important to note that, based on the history we know, the prices of securities held over time as investments have recovered from periods of significant decline. Our basic position (abbreviated here) throughout the most recent period of financial turmoil and economic problems has been set out in previous Monthly Comments: "If the history of stock price recoveries is to repeat, the current problems need to be overcome....There are no assurances or certainties here, only the knowledge that prior periods with significant problems experienced stock price recoveries." (A review of this history was presented in detail on pages 6-8 of June's Comments.) This remains our core view of the current situation, and why we continue to advise our clients to stay with their current portfolio allocations, which were set up to allow them to hold their investments through periods such as this one. See pages 6-8 of these Comments for examples of well-known financial sources who provide this same basic advice.

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Any recommendation contained in these Comments may not be suitable for all investors. Moreover, although the information contained herein has been obtained from sources believed to be reliable, its accuracy and completeness cannot be guaranteed.

COMMENTS: INDEX RESULTS for period ending SEPTEMBER 2008

	<u>YEAR</u>	<u>YEARS</u>	<u>YEARS</u>	<u>YEAR</u>	<u>YEAR</u>	<u>YTD</u>	<u>SEPT</u>
<u>STOCKS</u>	<u>1999</u>	<u>2000-02</u>	<u>2003-05</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u>
Vanguard Total Stock Market Index Fund (1)	23.8%	(37.2%)	53.1%	15.5%	5.5%	(18.5)%	(8.3)%
Standard & Poor's (S&P) 500 Index (2)	19.6%	(40.1%)	41.9%	13.6%	3.5%	(20.7)%	(8.1)%
Vanguard S&P 500 Growth Index Fund (1)	28.8%	(48.4%)	41.8%	9.0%	12.6%	(19.0)%	(10.5)%
Vanguard S&P 500 Value Index Fund (1)	12.6%	(26.2)%	63.2%	22.1%	0.1%	(19.5)%	(6.0)%
Dow Jones Industrial Average Index (2)	25.2%	(27.5%)	28.5%	16.3%	6.4%	(18.2)%	(5.2)%
NASDAQ Composite Index (2)	85.6%	(67.2%)	65.2%	9.5%	9.8%	(21.5)%	(10.8)%
Vanguard Midcap US Index Fund (1)	25.0%	(18.3%)	83.9%	13.6%	6.0%	(21.8)%	(11.6)%
Vanguard Smallcap US Index Fund (1)	19.6%	(24.2%)	87.5%	15.6%	1.2%	(12.8)%	(9.0)%
Vanguard International Index Fund (EAFE) (1)	25.3%	(45.9%)	95.9%	26.6%	15.5%	(29.2)%	(10.6)%
Vanguard Emerging Markets Index Fund (1)	61.6%	(29.5%)	162.7%	29.4%	39.0%	(34.6)%	(12.6)%
Vanguard Real Estate Investment Trust Fund (1)	(0.4%)	47.5%	98.6%	35.1%	(16.5)%	1.8%	(0.1)%
<u>BONDS</u>							
Vanguard Total Bond Market Index (1)	(0.8%)	30.4%	11.1%	4.2%	6.9%	0.6%	(1.1)%
Vanguard Intermediate Tax- Exempt Index Fund (1)	(2.9%)	23.7%	10.3%	4.4%	3.4%	(1.8)%	(4.0)%
Vanguard Short-term Bond Index (1)	2.1%	25.8%	6.5%	4.1%	7.2%	1.6%	(1.1)%
Vanguard Short Tax- Exempt Index Fund (1)	2.6%	13.8%	4.5%	3.2%	4.2%	2.3%	(0.5)%
Vanguard High-Yield Bond Fund (1); starting 2002	NA	1.7%	30.7%	8.2%	2.0%	(8.6)%	(6.0)%
Vanguard Inflation-Protected Bond Fund (1); starting 2001	NA	25.5%	20.0%	0.4%	11.6%	1.1%	(4.0)%

NOTE: Three-year results start with a base of 100, and after each year's % change, the result for that year creates a new base. So if at the end of the first year the index is up 10%, then the new base is 110%; and if down 10%, then the new base is 90%. NOTE also that a decline of 50% requires a gain of 100% to get back to the starting value, which explains why NASDAQ, down 67%, would require a gain of 200% to get back to its starting value.

- 1) Results for Vanguard funds include dividends and fund expenses but do not reflect PPA's advisory fee.
- 2) Results for S&P 500, Dow Jones, and NASDAQ indexes do not reflect dividends or PPA's advisory fee.

%	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			
		<u>1999</u>					<u>2000</u>					<u>2001</u>			
S&P 500	4.1	7.6	(7.7)	15.6	2.0	(3.0)	(1.3)	(7.8)	(12.1)	4.8	(13.8)	8.1			
NASDAQ	14.6	10.0	0.0	61.0	12.4	(14.8)	(7.2)	(29.6)	(25.5)	12.9	(26.7)	18.3			
BONDS	0.0	(0.5)	0.4	(0.7)	2.4	1.5	3.1	4.3	3.2	0.8	4.3	0.0			
		<u>2002</u>					<u>2003</u>					<u>2004</u>			
S&P 500	0.0	(13.8)	(14.1)	4.5	(1.8)	12.8	2.2	13.2	1.3	1.3	(2.4)	8.8			
NASDAQ	(5.5)	(19.5)	(13.5)	7.0	2.5	19.2	12.1	16.2	(0.5)	2.7	(7.5)	13.9			
BONDS	0.0	2.8	3.6	1.8	0.9	2.7	0.2	0.2	2.7	(2.6)	3.1	1.0			
		<u>2005</u>					<u>2006</u>					<u>2007</u>			
S&P 500	(2.6)	0.9	3.1	1.6	3.7	(1.9)	5.2	6.6	0.2	5.8	1.6	(4.1)			
NASDAQ	(8.1)	2.6	4.4	2.5	6.1	(7.6)	3.9	7.1	0.3	7.5	4.0	(2.0)			
BONDS	(0.5)	3.0	(0.7)	0.6	(0.7)	(0.2)	3.8	1.3	1.4	(0.6)	2.9	3.2			
		<u>2008</u>					<u>2009</u>					<u>2010</u>			
S&P 500	(9.9)	(2.9)	(7.9)												
NASDAQ	(14.1)	0.6	(8.0)												
BONDS	2.2	(1.1)	(0.5)												

SEPTEMBER 2008 COMMENTS

STOCK index prices posted significant declines for the month, amidst huge volatility. At month's end, September's US stock market declines ranged from -(5%) for the Dow Industrials to -(11%) for the NASDAQ Composite, with the US Total Stock Market and S&P 500 down -(8%) each. Year-to-date (YTD), these indexes were all down in a range of -(18%) to -(21.5%). International and Emerging Markets were down even more, for the month and YTD. Only the REIT sector has avoided these declines (see details in the chart on page 2).

BOND returns (price change plus interest) were adversely affected by the credit problems permeating the world's financial system. Prices declined for high credit quality taxable and tax exempt bonds, even for the previously high performing Inflation Protected bond fund. Lower-credit quality securities declined even further. The benchmark 10-year US Treasury yield closed at 3.84%, virtually unchanged from August but with much daily volatility. The rate remains above the March low of 3.43%. Note that as interest rates move higher, prices for existing bonds move lower (see details in the chart on page 2).

ECONOMIC NEWS continued mostly negative, with ongoing declines in employment and housing prices, and greatly increased pressures on the entire financial system. This resulted in a combination of bankruptcies, government interventions, and forced acquisitions of a variety of major financial institutions. Joining in the downturn were retail sales, consumer spending, and durable goods orders. Some positive news came with oil prices continuing to decline, which could relieve inflationary pressures. However, GDP projections for the third quarter of 2008 are lower, as the government rebates from earlier this year end.

From a longer-term standpoint, the housing and credit problems, higher commodity prices, and the accompanying economic slowdown have contributed to what is now a significant bear market for stocks. The declines reached bear market territory during early July (defined by the major indexes falling 20% or more), and fell even lower in September. The 2003-07 recovery from the severe bear market of 2000-02 has ended. From the 2000 highs to September 2008, the Dow Industrials are now 8% lower, the S&P 500 24% lower, and the NASDAQ a stunning 59% lower. This could be the first decade since the 1930s with cumulative annualized negative stock returns, making these returns obviously far lower than their positive long-term average annualized returns. The mutual fund company Vanguard notes that from 1926 through 2005, in only six of 80 years did stock prices fall within 2%, up or down, of the long-term annual average return of plus 10.4%.

However, going back further to the bull market that began in 1995, all three major indexes have similar average annual returns, ranging from 7.0% to 7.9%. (These returns are, however, well below the 10.4% annual average dating back to 1926.) As they converge, “regression to the mean,” described by Yale endowment manager David Swensen as “one of the most powerful influences in the world of finance” seems apparent. But Vanguard’s observation is also meaningful, since annual returns during the bull market were far higher than the long-term averages, and the returns from 2000-Sept. 2008 have been negative. **The moral: Stock returns are truly unpredictable and volatile in short time frames, and can be over long time periods as well, even with (so far) a fairly stable very-long-term average return. Key Questions: Your relevant time frame and tolerance for risk.**

	<u>S&P 500 (1)</u>		<u>DOW (1)</u>		<u>NASDAQ (1)</u>	
1st Qtr 2000 High	1,527		11,723		5,048	
Year End 2000	1,320	(13)%	10,785	(8)%	2,470	(51)%
September 21, 2001 Low	965	(37)%	8,235	(30)%	1,425	(72)%
Year End 2001	1,148	(25)%	10,020	(17)%	1,950	(61)%
October 9, 2002 Low	777	(49)%	7,286	(38)%	1,114	(78)%
Year End 2002	880	(42)%	8,342	(29)%	1,336	(73)%
Year End 2005	1,248	(18)%	10,718	(9)%	2,205	(56)%
Year End 2007	1,468	(4)%	13,265	+13%	2,652	(47)%
September 30, 2008	1,165	(24)%	10,851	(8)%	2,082	(59)%

Context: Prior Five-Year Gains in Bull Market of 1995 - 1999

	<u>S&P 500 (1)</u>	<u>DOW (1)</u>	<u>NASDAQ (1)</u>
End 1994	459	3,834	752
End 1999	<u>1,470</u>	<u>11,500</u>	<u>4,070</u>
Gain	1,011	7,666	3,318
Avg. Ann. % Gain: '95-'99; 5 years	26.2%	24.6%	40.2%
SEPTEMBER 2008	1,165	10,851	2,082
Gain	706	7,017	1,330
Avg. Ann. % Gain: '95-8/08; 13.75 yrs	7.0%	7.9 %	7.7 %

1) Results for S&P 500, Dow Jones, and NASDAQ indexes do not reflect dividends or PPA’s fees.

INVESTMENT CONCEPTS

The chart below, which we introduced with our November 2007 Comments, has been updated monthly to reflect the extreme stock market volatility since the summer of 2007. The month of September (following two months of relative price stability) joined the June to mid-July period, and the January through mid-March period, as periods of significant downside stock price volatility.

	<u>S&P 500</u>	<u>Change from YE06</u>	<u>Dow Jones Industrials</u>	<u>Change from YE06</u>	<u>NASDAQ</u>	<u>Change from YE06</u>
YE 2006	1,418	-	12,463	-	2,415	-
7/19/07 High	1,553	9.5%	14,000	12.3%	2,720	12.6%
8/16/07 Low *	1,370	-3.4%	12,456	-0.1%	2,387	-1.2%
10/9/07 High	1,565	10.4%	14,165	13.7%	2,859	18.4%
12/31/07 Close	1,468	3.5%	13,265	6.4%	2,652	9.8%
1/22-23/08, and 3/17 Lows*	1,257	-11.3%	11,635	-6.6%	2,155	-10.8%
5/31/08 Close	1,400	-1.3%	12,638	1.4%	2,523	4.5%
9/29 Low	1,106	-22.0 %	10,365	-16.8%	1,984	-17.8%
9/30/08 Close	1,165	-17.8%	10,851	-12.9%	2,082	-13.8%

* Note – these Lows are not closing prices, but ("intra-day") lows

Some key observations from the chart:

- 1) From the 10/9/07 highs to the most recent 9/29/08 low, the S&P 500, Dow Industrials, and NASDAQ Composite were all down in a range of 27% to 30%.
- 2) The October 2007 recovery from the August 2007 lows, and the April-May 2008 recovery from the mid March lows, were both substantial, ranging from 10% to 20% in most cases, and occurring in very short time frames. These recoveries illustrate the dangers of exiting the stock market after a period of declines, on the assumption the declines will continue. The dramatic decline of 9/29/08, followed immediately by the sharp recovery of 9/30/08, provides an additional illustration of this point.
- 3) There is no way to determine, in advance, at what point the lows for this market cycle will have been reached, until long after the cycle has been completed.

ADVICE FROM WELL-KNOWN FINANCIAL PEOPLE AND FIRMS

We think it appropriate in this extremely difficult economic, financial, and market environment to present some other points of view on how best to deal with these circumstances. It is our view that bringing in a wider range of commentary should add to your ability to make informed judgments regarding what is taking place. As you might expect, you will find these points of view to be closely aligned with ours.

We will begin with John Bogle, who is the person most responsible for the success of the Vanguard mutual fund business, and is particularly associated with the idea of using low cost, indexed investments to implement a portfolio. A WSJ article (9/24/08, pg. D1) says that Bogle, age 79, "has about two-thirds of his investments in bond mutual funds and ...sleeps well at night because of it. Mr Bogle, who counts this downturn as his 10th bear market, confesses that he's a conservative investor...and that he would generally recommend that young people have 70% to 80% of their investments in stock funds." The article, which begins with a section about Peter Lynch, the well known former portfolio manager of Fidelity's Magellan Stock fund who is "continuing to stick with his all stock portfolio," states that both Bogle and Lynch "share a confidence in the long-term earning power of the US economy and companies." The article observes that "it can be painful to keep buying stocks at times like this. Here's why investors should do it: just as stocks can dive in a day, they can surge fast too. No one knows when this market will turn. But if you aren't in it when the time comes, you'll miss it." In the interest of full and fair disclosure, the article points out that Lynch viewed Fannie Mae as his "favorite stock" for years, also owned AIG, and is quoted as saying "I can be just as dumb as anybody else."

The same WSJ article also quotes William Bernstein, author of "The Four Pillars of Investing," who says that "people are finding our right now what their risk tolerance is." The article also suggests "rearranging your portfolio over time to boost the share of bonds to a range that's more comfortable, and sticking with that mix so the next downturn will be more tolerable." (Our note: This is our long-standing approach to asset allocation; specifically, create a broadly diversified mix of bonds and stocks appropriate for your particular goals and risk tolerance, so that you can hold on through the downturns and retain positions that benefit from the recoveries that history tells us are likely).

Jason Zweig, who writes the weekly "Intelligent Investor" column for the WSJ, recently (9/13-14/08, B1) wrote that "when the headlines are overwhelmingly negative, as they are now, the market tends to feel riskier than it actually is. (The time to worry is when no one seems worried, not when everyone does). Take a few moments to go back in market history and see how stocks did after other periods of despondency like 2002, 1998, 1991, 1987, 1982 and 1974 and so on. If history is any guide, your inclination to act like an ostrich (that is, to stick your head in the sand during lousy markets) is a strong indication that the market is about to turn into a phoenix." (Our note: The phoenix refers to the mythical bird that rises from its own ashes).

Our next source is Charles Schwab, the person who founded, and currently runs, the firm bearing his name. In a full page ad/open letter to America's investors, which appeared in the WSJ (9/25/08, A22) he wrote the following: "These are unprecedented and unsettling times for investors. As a longtime investor myself, I know that in an environment like this, it's hard to sift through all the information and make clear decisions. Especially when the news creates concerns not just about your own financial well being, but also the safety and stability of the financial systems and institutions you depend on. So, first and foremost, I want to express my conviction that stability and equilibrium will return to the markets. The process of finding that balance may be uncomfortable, but it will return...."

He continues: "What Should Investors Do? I've been asked this question many times this year. Of course, no one piece of advice can apply to everyone. Each of us has our own time frame for investments and comfort level with risk. But, having lived through previous market downturns, I do believe that everyone should review their portfolio to ensure that their asset allocation is in line with their long term targets. And, if everything is aligned, then stick with it. During times of uncertainty, investors often make the mistake of trying to time the market by simply stepping out of it. If my years of investing have shown me anything, it's that asset allocation, diversification, and periodic rebalancing are the tools investors should use to weather market downturns. Having the right investment mix doesn't mean that the value of holdings will never go down – but rather helps strike the right balance between risk and reward, given your goals. I am also mindful that some people are focused exclusively on the safety and stability of their assets. If that's true for you, I encourage you to discuss available options with your investment professional."

The Summer 2008 edition of the Bernstein Journal (written by Alliance Bernstein, a major investment research and management firm), discusses "The Anatomy of Bubbles and Busts – And the Opportunities They Create." The article begins by describing the "predictable patterns" of past bubbles and busts, as follows: "A sharp rise in the price of some object of speculation sparks the interest of investors; hunger for the coveted investment fuels borrowing, which fuels demand that drives prices up further...as the bubble builds, valuations become more and more distorted, and fundamental considerations, such as realistic profit potential, are disregarded; investors rationalize the soaring prices by telling themselves that some unique aspect of the inflated asset has rendered the old economic rules obsolete; at last (though it's hard to predict when), some failure...signals the old rules do in fact still apply, rattling investors and precipitating a crisis of confidence. Prices start to fall, gathering momentum as investors' panic contaminates even good investments; eventually the fears subside and 'normal' market drivers reassert themselves, creating outperformance opportunities for those investors who remained true to fact, not euphoria."

The article then turns to a discussion of the housing bubble in the US. It focuses on the dramatic decline in housing prices that has caused so many of the mortgages related to that housing to lose significant value, which in turn has caused so much difficulty for the financial institutions that had invested in these mortgages and related securities. "The housing bubble has had far reaching ramifications....As indications mounted that the underlying loans were at risk, turmoil grew, and the market for such securities (sub-prime and other asset backed loans that had been bundled into packages of securities) evaporated. Holders, predominantly financial institutions and other leveraged investors, were forced to mark down their holdings, often accompanied by margin calls that prompted widespread selling of other liquid securities, especially stocks....Investor anxiety and fear produced a market in which investors were willing to accept a real, after-inflation yield of negative 2% on two year US Treasuries, a negative investment return for the safety of Treasuries." The article continues: "Although the resolution of the housing bubble has yet to occur, history may offer some hope for the future: A study of modern stock market bubbles reminds us that recovery does come eventually."

The Bernstein article also discusses a variety of behavioral tendencies that cause people to make decisions that do not turn out well for their investment results. First, there is the tendency to "chase 'hot' performers long after the opportunity has passed, or to steer clear of out-of-favor stocks despite their longer term promise, or to avoid risk even at the cost of a reduction in yield or return." One reason cited is that "we feel pain from loss more keenly than we feel pleasure from gain, so that extreme sensitivity to pain makes investors generally risk averse, and that trait becomes even more pronounced when bubbles burst." A second reason is referred to as 'anchoring,' the idea that "when an investment has done well, investors become convinced that such performance will continue into the future...and when something has faltered, or some bad news besets the investment, investors become adamant that it is permanently impaired, can't get rid of it fast enough, which hastens the downward spiral." A third reason refers to "people's tendency to be influenced by what they hear most frequently, so that headlines can become stand-ins for the 'truth.'" The article concludes this point by citing the fact that "over the past 20 years, the average mutual fund investor had an annualized return of about 4.5%, while the US stock market grew at close to 12% annualized over the same period...because investors tend to move out of an investment that may be lagging and into one that may be prospering. But doing so typically means they've missed most of the opportunity in the hot idea and foregone the developing opportunity in the disappointment." (Our note: This point applies to entire classes of assets as well as particular stocks).



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