



Stocks Continue to Slide, but Asset Class Diversification Remains Critical

March 6, 2009

More than the actual effects of recessions, depressions, bankruptcies, bailouts and corporate restructuring, markets are most contemptuous of future uncertainty. The world stock exchanges have continued to decline thus far in 2009 because the short-term path to economic recovery is ill-defined and unclear. Nearly all measures of stock market performance have declined since January 1, and even historically "safe-havens" such as high-quality bonds have retreated marginally.

The natural emotional response by investors is to stop the pain. Sell stocks. Buy gold. Take cover until the storm passes. Unfortunately, this instinctive "fight or flee" behavior is rarely rewarded in the battle to preserve and grow one's investment capital.

Predicting the week-to-week or month-to-month levels of the stock market is at best a 50/50 proposition. At every moment throughout every trading day, the level of the market and the price of every stock represents the collective wisdom of thousands if not millions of investors. There are two sides to every transaction—one side where a seller believes an asset is going to decline in value and the other side where a buyer believes the value of that same asset is going to rise. Stock prices rise and fall over the short-term as these buyers and sellers react to every conceivable scrap of information that could effect the future fortunes of a company or industry.

Trying to outguess the combined wisdom of all market participants has proven over long periods of history to be an expensive and ineffectual exercise. We do not know what returns the stock, bond, or commodity markets will produce over the next months or quarters. However, we do believe that over the next 3, 5 or 10 years, the likelihood that the equity markets will be

higher is much better than 50/50. From January 1871 through February 2009, there have been 1538 rolling 10-year periods. Returns for the stock market have been positive in 1507 (98%) of these periods. Even over horizons as short as 3 years, returns for US stocks have been positive in about 85% of all possible periods. Since 1871, we estimate the return for a diversified US equity portfolio has averaged about 8.5% on an annualized basis. ⁽¹⁾

Stock prices are volatile in the short-run because investors are driven by fear, greed, panic, and sometimes euphoria. We do not recommend increasing one's allocation to equities when it seems like stocks are only going up (e.g. 1998-1999) and we do not recommend selling when it seems like stocks will never rise again. We believe in a long-term relationship between risk and reward, the productive deployment of capital in a free market, and the demonstrated ability of creative individuals to imagine, build, and distribute products that enrich all of our lives.

The chart at the bottom of page 2 shows the remarkable advance of US stocks over almost 140 years. Our

*. . . We believe in a long-term
relationship between risk and reward,
the productive deployment of capital in
a free market, and the demonstrated
ability of creative individuals to
imagine, build, and distribute products
that enrich all of our lives*



BRC Investment Management LLC offers investment counsel to pension and profit sharing funds, individuals, corporations, endowment funds and foundations. The firm's strategy is to provide personalized investment services to our select clientele and flexibility in ever changing investment markets.

8400 East Prentice Avenue
Suite #1401
Greenwood Village, CO 80111

Phone: 303-414-1100
Fax: 303-414-1111
Email: ddurie@brcinvest.com

*We are on the web:
www.brcinvest.com*

market driven economy has withstood multiple world wars, assassinations, disease, natural disasters of every stripe, and political environments ranging from liberal to conservative and all points in-between. While the recent decline in the market is noticeable on the chart, the long-term advance of the equity market also stands out. We believe that capitalism will survive.

We further believe that income producing securities represent a sound long-term investment. In the current market environment, investors should maintain a broad and diversified asset allocation that incorporates US and international stocks, high quality fixed income and real estate securities, secured money market investments and adequate cash reserves. The percent allocation to these asset groups should be based upon the medium-term to long-term financial goals of each individual client and should be maintained at relatively stable levels until personal risk attitudes or financial objectives change. For investors with at least a 3-5 year time horizon, we continue to believe that stock market investments should represent a significant portion of a well balanced portfolio.

In addition to a diversified investment portfolio, we recommend that individual investors maintain liquid cash/money market reserves in an amount equal to 6 to 12 months of living expenses. We also recommend that our clients review their insurance policies and estate plans, pay down installment debt, and continue their contributions to their 401(k)'s and other retirement vehicles.

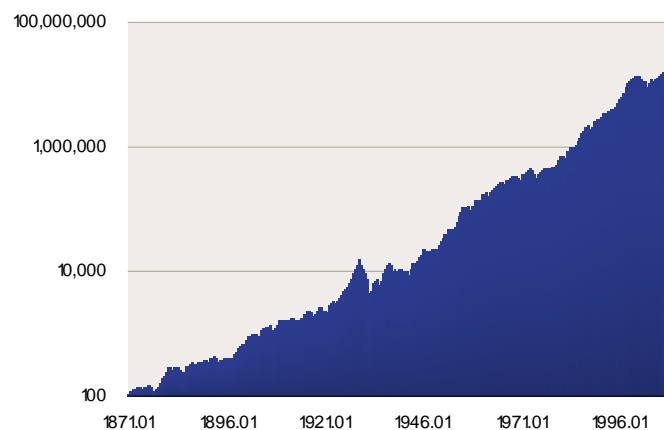
Like all past market "crises", this too shall pass. Just as in periods of past economic turmoil, the most successful investors were those that avoided the temptation to

follow the thundering crowds, we believe the most successful investors today will be those that are able to maintain an asset allocation that is appropriate to their particular long-term investment objectives.

A well diversified and long-term oriented investment strategy has proven to be a powerful creator of wealth for many decades. While it is tempting to believe that somehow this time the world has fundamentally and permanently changed, we would rather build our investment process and philosophy on our confidence in the engine of free markets and the attractive relative returns that a long-term perspective has produced.

Return to US Stock Market - 1871 through 2009

Growth of \$ 100 (Log Scale)



(1) Past returns are no guarantee of future results. Research results are not meant to reflect the results of actual client portfolios or even portfolios that could have actually been created. Historical market returns have been assimilated from several sources including Princeton University, Cowels and Associates, and Thomson Reuters Financial.