

January 20, 2009

The year 2008 was one of the most challenging ever for equity investors as all market indices *significantly* underperformed their historical averages. During the year, the S&P 500 *dropped 37%* while the average U.S. Stock Fund *decreased 39%* in value. Investors in foreign stocks were hit hardest as the Morgan Stanley EAFE Index *lost 45%*. One has to go back to 1907 and 1931 to find calendar year periods that inflicted greater damage on U.S. stocks!

As we enter the January period of market prognostications, we would encourage some caution. These predictions generally hold little value. There is always someone who can get it right for a single moment in time but consistency is impossible. As such, relying on historical market averages is the most reliable way to extrapolate future returns. It is simple mean reversion. Here's the good news: simply put, returns in '08 were so bad that the probability of better returns in '09 is high.

There is no question that we face more than the usual uncertainties. As investors, it is important to remind ourselves that present economic health does not necessarily equate to the potential for positive or negative investment returns. The market is a futures market and as such has already "priced in" much of the future pain that the economy is likely to endure. The most important question is *how much* bad news is currently accounted for? In our opinion, the October-November period priced in the worst case scenario for the economy. As a result, most investments already reflect this reality. As Warren Buffet likes to say, "I am fearful when everyone is greedy and I am greedy when everyone is fearful." The fear surrounding the economy and the financial markets is palpable!

Out of this conundrum will come a new set of positive leadership. We take great comfort in knowing that our discipline which is predicated on identifying change, both positive and negative, will identify new emerging leadership as we move forward. As this develops, we will respond accordingly. This same discipline has served us well over many cycles since 1972. We have full confidence that it will continue to be effective.

We wish you and your family, a happy and healthy New Year. Thank you for choosing Contravisory as your investment advisor. Please give us a call should you need further information on your 2008 results or on your current portfolio.

Sincerely,
William Noonan
President & CEO