In This Issue

- Subprime Markets
- Manager Transition at Vanguard

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Subprime Markets

Anyone who's been paying attention to the news (or their investments) knows that the markets have been experiencing marked volatility over the past few weeks, both at home and abroad. The term "subprime" is unavoidable, and has much to do with the market woes as investors here and overseas have been indiscriminately selling off stocks, with particular emphasis on financials.

But while the source of these woes was perhaps unexpected, the correction we've been experiencing was not. For quite some time our view has been that markets here and abroad would make a correction from their heights and we've prepared our clients portfolios accordingly, positioning to withstand the markets' volatility and continue towards the goal of long-term profits.

As many investors are panicking and wondering if now is the time to get out, we think there are plenty of reasons to remain calm and stay in. As we're fond of saying, it's "time in the markets, not market timing", which forms the foundation of a solid investment strategy, along with the ability to take intermediate losses in stride and react rationally as opposed to emotionally to adverse situations.

We certainly don't think that now is the time for quitting the markets, no matter how volatile they are. Short-term bonds remain strong, especially the high quality ones in the funds run by Fidelity and Vanguard that we own in our clients' portfolios. Health care has also performed very defensively, buffering short-term losses in international and larger-cap holdings by losing less than the market (through Tuesday night, Vanguard's Health Care fund was showing a 0.1% gain for the month compared to Total Stock Market Index's 0.5% loss). We've also seen some nice contrarian performance from Fidelity funds such as Contrafund, Dividend Growth and Puritan.

There are plenty of other positives to look to--consumer staples companies have shown strong growth and the global economy continues to expand. China's feared blow up has yet to surface, the Fed has not been forced to combat inflation by raising rates nor to rescue fallen hedge funds by cutting them, consumers keep spending, and new jobs continue to be created.

So while many investors, perhaps led on by the national media, feel increasing pressure to sell or panic, we remain convinced that our clients and their portfolios are well equipped to face whatever lies ahead.

Manager Transition at Vanguard

Last week, Vanguard announced the addition of Wellington Management's W. Michael Reckmeyer, III to the management teams of Equity Income and Wellesley Income. Reckmeyer will be working closely with current manager Jack Ryan on the stock portion of Wellesley Income and Wellington's share of Equity Income's assets and will replace Ryan when he moves to Wellington's London office next June. Reckmeyer has already been assisting Ryan with the annuity version of Equity Income for several months, and we're confident that the transition will not have noticeable effects on how the funds are run.

About Adviser Investment Management, Inc.

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