ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

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What Bailout Bounce?

This week saw the markets make history— the Dow experienced its worst single-day point loss (it was not its worst one-day percentage drop, however, that came when markets resumed trading after the September 11 terrorist attacks in 2001) —as the financial bailout plan failed to pass in Congress. That sell-off was immediately followed by its third-biggest one-day point gain ever.

Such dramatic peaks and valleys has been the pattern for the entire month, making September one for the record books and the history books: from the collapse of Lehman Brothers to the rescue of American International Group, from the government's takeover of Fannie Mae and Freddie Mac to the shotgun marriage of Merrill Lynch to the aforementioned enormous $700 billion federal bailout still in the works.

At the quarter's close, the Dow is 23.4% below its October 2007 high. During the 2000 to 2002 bear market, the Dow's lowest point was 35.2% below its high, so, as of September 30th, if we were to match that decline, we'd still have another 1678 points to go on the downside. The S&P 500, down 25.5% from its October high, would have to fall an additional 28.4% to match the decline seen in 2002.

But we are certainly not suggesting that the losses we've suffered over the past 11 months are insignificant. If you find the markets' turmoil to be distressing, you are one of many. The Fed has injected money into the banking system to encourage lending, but without some kind of bailout plan on the table, it's hard to know what comes next.

There are many uncertainties surrounding the economy and the markets' right now (although, it is worth asking yourself whether there is ever any certainty in investing) and we here at Adviser Investments are, unfortunately, not in possession of a crystal ball in which the future is revealed. That said, here are a few things we do know:

For one, capitalism isn't dead—it's suffered a significant set back, but it'll take a lot more than what we've experienced of late to kill it. Despite the fact that there is a lot of liquid capital sloshing around the market, from the $1 trillion on corporate balance sheets to the multiple trillions still sitting in money market funds, it isn't being lent out, and commercial paper markets and interbank lending are completely blocked up, making financing of ongoing business operations difficult. This logjam will eventually be broken, but the past month's events didn't help things.

Secondly, while a recession seems inevitable at this point (and the oil markets are indicating a corresponding global economic slowdown), the question of how long and how protracted it will be has yet to be determined.

Thirdly, the panic, negativity and uncertainty on Wall Street and Main Street are one of the biggest problems we now face. It makes no sense that the lack of a bailout plan causes the Dow to fall 778 points one day, but hopes for a new one cause the market to regain 485 of them the next. It is clearly evident that the fear part of the "fear and greed" equation is currently driving much of the market action.

Finally, and most importantly, our clients' portfolios remain diversified among some of the best managers in the business. Right now, as in most market panics, diversification doesn't seem to be working too well—everything is going down. When the panic ebbs and shakes the worry-mongers from their trading desks, you'll begin to see diversification work its magic, but you have to be invested to reap the benefits.

About Adviser Investments

Adviser Investments is an independent, professional money management firm specializing in Fidelity and Vanguard mutual funds. With 1,500 clients and $1.2 billion dollars under management, Adviser is one of the nation's largest mutual fund research and money management firms. Our staff of 40 investment professionals focuses on helping individual investors, trusts, foundations, and institutions meet their investment goals. Our minimum account size is $350,000.

For more information, please visit www.adviserinvestments.com or call 800-492-6868.

Adviser Investments
85 Wells Avenue
Newton, MA 02459
USA