# ADVISER FUND UPDATE

ADVISER INVESTMENTS

Market Summary and Commentary for Individual Investors from Adviser Investments

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October 31, 2008

**Fed Slashes Rates**
For the sixth time this year and the second time this month, the Fed slashed the federal funds rate, this time an expected 0.50%. The moves have taken rates from 4.25% at year-end 2007 to the current 1.00% and, since the Fed began cutting in September of last year, down 425 basis points altogether from 5.25%.

In its meeting notes, the Fed indicated it was concerned by the drop-off in consumer and business spending, and warned that the economic slowdown could worsen in the coming months. When the board next meets in mid-December, we would not be surprised to see them once again cut rates.

On Thursday, we got a look at the Commerce Department's report on 3rd Quarter GDP, which seemed to signal that the U.S. economy is in a recession. That said, the initial reading was that the economy contracted 0.3% from last year, but is lower than the 0.5% many expected (that number could still be revised downwards in the coming months, however). One of the largest contributing factors to the drop was consumer spending, which dropped 3.1% in the quarter, the largest contraction since 1980.

In the meanwhile, the markets have seen the same type of volatility that has become commonplace this year and this month. On Tuesday, the Dow Jones Industrial Average saw its second biggest single-day point gain ever, closing up 889.35 points on the day, rising nearly 11%. The biggest single-day point gain came earlier this month, on October 13th, when it closed up 936 points. To get some measure of the unprecedented market action, consider this: there have been 18 days in 2008 when the Dow has experienced intraday point swings of 5% or more and 15 of those have been in October. Looking back over the last decade-plus, there have only been 14 days, in total, that saw swings of the same magnitude.

As always, there are some positives to take away from the morass of data out there. The housing market saw some pluses in that existing home and new home sales were both stronger than expected in September. While this does not signal the end of the housing market's decline, it could be a first step towards a more levelheaded supply/demand balance.

Of course, one of the biggest positives that investors can have going for them is a sound long-term strategy and a portfolio of funds managed by some of the best in the business. As we've been stressing in these updates, and to our clients, we feel that our chosen Fidelity and Vanguard managers and the portfolios we've built around their experience provide that, which makes tough times like these far less onerous.

**Fidelity Manager Moves**
Fidelity made several changes to fund management in the month of October, none of which should be causes of concern for investors in the effected funds.

As of October 21st, Nicholas Price was appointed co-manager of Japan Smaller Companies, and will be splitting duties with current manager Kenichi Mizushita. Price is being groomed to take over for Mizushita as of year's end, in advance of Mizushita's planned 2009 retirement. The overlap should provide a smooth and seamless transition once Mizushita steps down.

Price joined Fidelity in 1993 as an equity research analyst, covering the banking, brokerage, consumer electronics, pharmaceuticals and retail industries. He began managing Japanese equity funds for non-U.S. investors in 1999.

Earlier in the month, several Select funds changed management as well, with Benjamin Hesse joining Richard D. Manuel, Jr. as co-manager of Select Financial Services (Advisor and VIP classes as well), Eddie Lee Yoon becoming co-manager of Select Health Care (Advisor and VIP too) alongside Matthew Sabel and Anton An succeeded Maurice FitzMaurice as manager of Select Transportation.

**Vanguard Re-Opens Two**
On October 31st, Vanguard announced that it would be re-opening two funds, International Explorer and Precious Metals & Mining, effective immediately.

International Explorer, a fund we've invested in our clients' behalf in the past, had been closed since August 2004, when assets began to approach a level at which it would have been difficult for the fund's manager, Matthew Dobbs of Schroder Capital Management, to allocate in the small-cap international markets that make up the fund's investment universe. But with this year's losses and the resulting cash outflows, the fund as of the end of September was right around the $1.5 billion in assets it held when it was closed originally. If one factors in the losses experienced this month, the fund is certainly below that level, so Vanguard (and presumably Dobbs) feels that the fund can handle some new cash at this point. International Explorer is down 48.7% year-to-date through October 30th and has seen assets drop about $1.8 billion since it reached a peak of $3.3 billion under management in May 2007.

Precious Metals & Mining has also experienced tremendous hardship this year and was down 57.9% through October 30th, the worst performance of any of Vanguard's funds year-to-date. Like International Explorer, Precious Metals & Mining through September was back to about the same level of assets under management as it was when it was closed in February 2006. In May of this year, the fund peaked at $5.7 billion in assets, but in the intervening months has seen a precipitous drop in performance (and perhaps patronage), totaling just $3 billion in assets by September's end.

Vanguard has placed a $25,000 minimum initial investment on International Explorer and a $10,000 minimum on Precious Metals & Mining for all account types. While we would advise investors against considering the volatile Precious Metals & Mining, for those considering adding to their international holdings—and who can afford the steep price tag—it might be worthwhile to give International Explorer a look, as it will likely not remain open long once the markets make their turnaround.

## 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.



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