

The Portfolio Reporter

Wouldn't it be nice to see the market just continue to go up? Then you could say, "I am invested in this, and it is going to return this specific amount." Alas, only risk-free accounts such as money market account (MMAs) or certificates of deposit (CDs) have exact returns. As an investment manager, not a bank manager, I manage risk and make sure investors are rewarded for agreeing to experience the risk of downs, as well as the ups.

Our analysis of the Dow Jones Industrial Average indicates that the index declines 20% to 40%, which is considered a major correction, every three to four years. For example, the Dow declined 25% from February of 1966 to October 1966 and then increased 32% from October 1966 to December 1968. In the most recent cycle the Dow decreased 29% from January 2000 to September 2001, increased 29% from September 2001 to March 2002, and then declined 31% from March 2002 to October 2002. The subsequent upward trend has continued to rise, and the DOW is up 73%.

Investing in the market as opposed to CDs and MMAs requires patience. As I watched the Indianapolis Colts defeat the New England Patriots, I was reminded of a quote I read in *Coach For a Day* Fast Company, November 2006. "NFL head Coaches' ultimate insight for aspiring CEOs is this: **Patience is a truly underrated skill**, especially for day-to-day managerial nonsense. Without it, you're probably not cut out for the job." That is pretty powerful advice even if you are not a NFL Coach or a CEO. Investors will certainly experience flat and down markets before we reach up markets.

So where do we stand with the current market? The Dow Jones and S&P 500 have increased 1.3% and 1.5% respectively in January. Across all our variable annuities and managed accounts, our aggressive models were up 1.1% to 3.3% and Growth models were up 0.6% to 1.1% in January. The Moderate and conservative models were up 0.2% to 0.5%. The moderate and conservative models did not perform as well because the bond funds in those models declined in value. Remember that bond prices have an inverse relationship to interest rates: as interest rates rise, bond prices fall (and vice versa). Interest rates for government and corporate have increased over the last month as investors saw economic data improve. Analysts now believe that gross domestic product (a measure of how fast the US economy is growing) increased at a faster pace than they previously thought.

There are two reasons for bonds in the portfolio: 1. Bonds tend to reduce volatility of the stock funds 2. Bonds tend to increase in value when the economy slows down. While performance in the last month was not favorable, (the Lehmann Aggregate Bond index declined 0.04%), I still believe it is important to hold these positions going forward.

Most sectors performed better than the S&P 500. Energy was the exception, down as much as 7% mid-month but only down 1% by the end of the month.

We are not making any modifications to the model portfolios this month except for minor “tweaking”. We will continue to monitor inflation and economic growth for changes that require an alteration to the model portfolios.

Please feel free to pass the “Portfolio Reporter” to interested friends and family members. The opinions expressed here are based on the author’s views and should not be construed as financial advice. For more information about your investments, please contact your financial professional.

MONTHLY CONFERENCE CALL

Our next monthly conference call will occur Thursday, February 15. We will have two times for the call:

11am Mountain time (1 pm Eastern time)

6pm Mountain time (8 pm Eastern time)

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