FINANCIAL ARCHITECTS INC.

*Capital Blueprints for the Future*

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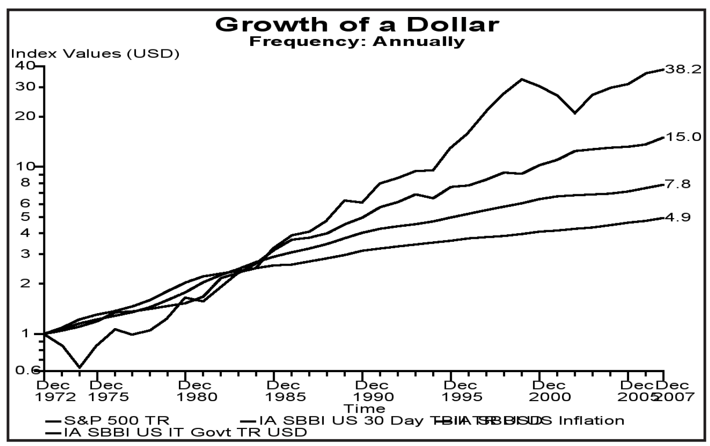
# Timeless Messages

## Four Investment Truisms for Investors

**"A ship in a harbor is safe, but that's not what a ship is built for."**

### #1 Stocks May Still Be the Best Investment for Long-Term Investors

There's an old seafarer's adage, "A ship in a harbor is safe, but that's not what a ship is built for." Similarly, returns on so called "safe" investments, such as bonds and Treasuries, are probably inadequate to fund most investors' lifetime goals. According to Chicago-based research firm Ibbotson Associates, over the last 35 years, investors who ignored stocks missed out on an incredible opportunity to build wealth. While it's impossible to predict where the market is headed, stocks may be the cornerstone of a successful long-term investment strategy.

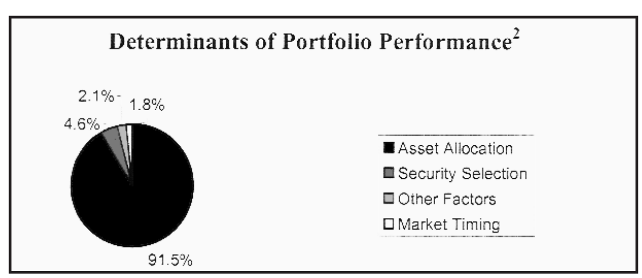



### #2 The Importance of Asset Allocation

As the chart below shows, asset allocation explained over 90% of the variance of quarterly total returns, according to Gary Brinson's seminal study. If factors such as "market timing" and "security selection" contributed far less, why is so much focus placed on them? Part of the reason may be that many investors, looking for high returns based on whatever investment style happens to be in vogue, chase short-term performance. A better approach for investors may be to develop a diversified investment portfolio – based on horizon and risk tolerance – with the help of a professional financial advisor.

*(1) Source: Ibbotson Associates. All data is based on annualized total returns. The S&P 500 Index is a capitalization-weighted index of 500 widely traded stocks. Created by Standard & Poor's, it is considered to represent the performance of the stock market in general. Intermediate bond returns are calculated using the Lehman Brothers Government/Credit Intermediate Index. The U.S. 30-day Treasury bill is used as a proxy for "cash." Indices are not available for direct investment. Past performance is not a guarantee of future results.*

*(2) Source: Financial Analysts Journal, May-June, 1991, "Determinants of Portfolio Performance II: An Update" by B.G.P. Brinson, B.D. Singer and G.L. Beebower. Results are based on the 10-year performance record of 91 pension funds.*

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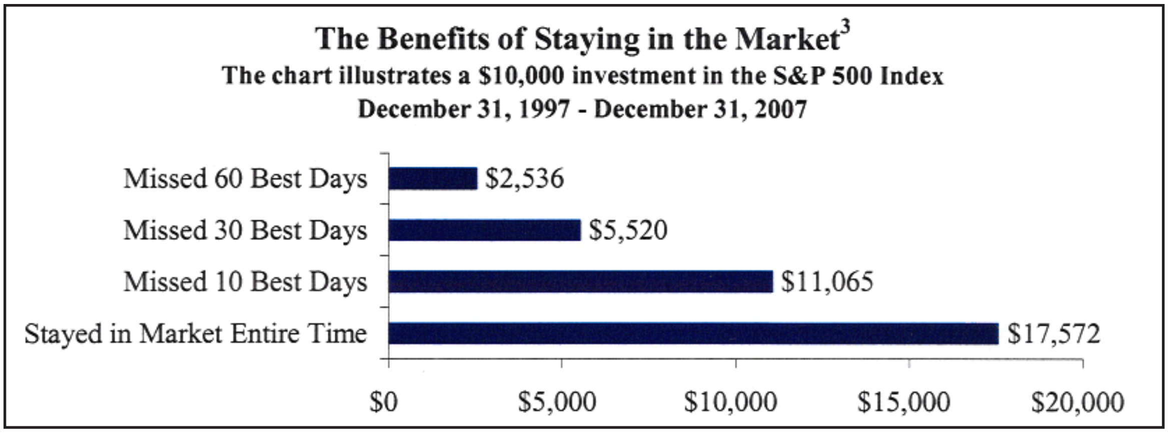
**“investors – often make decisions based on emotion.”**

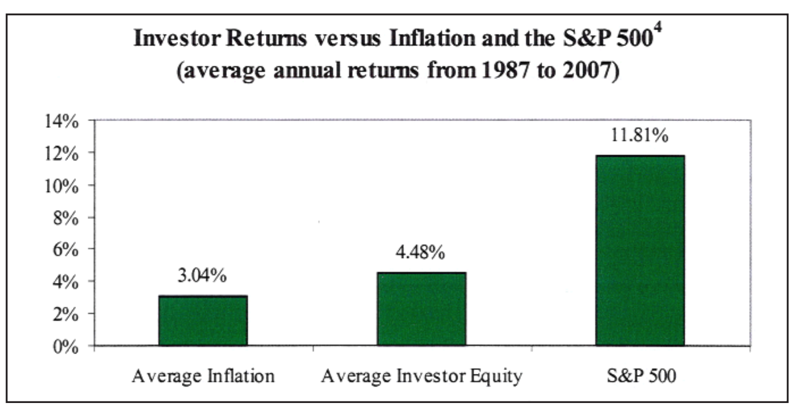
### #3 It’s Time in the Market – Not Market Timing – That Matters Most

During lulls in the market’s performance, many investors lose confidence in a disciplined investment strategy. These investors often sit on the sidelines while waiting for the market’s recovery. As you can see in the chart below, attempting to time the market is an inexact – and often costly – exercise. Often, the market’s “best days” come at unexpected times, so often the best approach is to stay the course.




### #4 A Case for Professional Advice

The chart below shows the return of the Standard & Poor’s 500 Index, generally considered to be representative of the broad U.S. equity market, versus the average equity mutual fund investor and inflation. The S&P 500 returned 11.81% for the time period between 1987 and 2007, more than double the return of the average equity fund investor who likely attempted to time the market – getting in and out at the wrong times. The main reason for the disparity in returns is that investors – when left to their own devices – often make decisions based on emotion. This appears to be a clear indication of how professional advice may help keep investors’ behavior from affecting the returns they actually earn.




*(3) Source: Factset. This hypothetical investment is for illustrative purposes only and is not intended to represent any particular investment product. Returns include dividend reinvestment and no taxes on earnings. Past performance is not a guarantee of future results. The S&P 500 Index is a capitalization-weighted index of 500 widely traded stocks. Created by Standard & Poor’s, it is considered to represent the performance of the stock market in general. It is not an investment product available for purchase.*

*(4) Source: Dalbar, Inc.’s “Quantitative Analysis of Investor Behavior 2008.” Average equity investor data based on cash inflows/outflows and performance of over 6,000 mutual funds representing over 95% of all funds. Returns include reinvestment of dividends, but do not assume any transaction costs, taxes, management fees, or other expenses. The S&P 500 Index is an unmanaged index generally considered to be representative of the large-cap segment of the market. A direct investment in the index is not possible. Return data is presented for illustrative purposes only and is not intended to imply past or future performance.*

# Lessons From the Pages of History

*"Those who cannot remember the past are condemned to repeat it."*

- George Santayana, Philosopher

Each year, financial markets present new challenges for investors. So we would do well to remember Santayana's famous, and often repeated, quote, which doesn't refer to the exact repetition of events, but rather to our willingness to forget the lessons they teach.

***Unheeded Lessons***

The history of investing is littered with examples of lessons that, had they been heeded, likely would have spared investors a significant amount of heartache and saved their portfolios a significant amount of money. Consider the following events that characterized irrational market exuberance:

*The Tulip Bulb Craze*

In the mid-1500s, tulips were first imported into Europe from Turkey. By the early 1600s, limited supply and increasing demand fueled speculation for tulips. At the height of the mania, investors traded rare bulbs for tens of thousands of dollars. Fortunes were lost when prices for the bulbs returned to reality.

*The South Sea Bubble*

Government debt in Britain soared to more than 10 million pounds in 1711. The South Sea Trading Company purchased most of the debt and then sold shares in the company to the public. Rumors that the British government would give South Sea exclusive trading rights in foreign ports boosted the shares from 100 to 1,000 pounds. Unfortunately, the trading rights failed to deliver the expected results, and share prices plummeted.

*The Nifty Fifty Crash*

Blue-chip companies with proven track records fared well during the onset of the 1972-73 bear market. Investors raced to purchase them, driving prices skyward. Eventually, the bear market prevailed and many of these "can't miss" companies faded into obscurity.

*The Dot-Com Meltdown*

During the late 1990s, many investors in the U.S. stock market bought into technology-oriented companies that, for the most part, they did not understand. The concept of earnings was ignored as investors shelled out billions of dollars to buy unprofitable companies that traded at up to 350 times cash flow. The so-called "new economy" did not last and the market correction hit hard.

*The Real Estate Bubble*

Existing family home prices peaked in July 2006 perpetuated by low interest rates and lax lending standards. Soon afterwards, supply began to outweigh demand, and the housing market began to soften. With ballooning inventory and sharply reduced sale volumes, the bubble "burst" in 2007 as many homeowners were no longer able to meet their monthly payment obligations and home foreclosure rates skyrocketed.

***Looking Ahead***

*"Men, it has been well said, think in herds; it will be seen that they go mad in herds, while they only recover their senses slowly, and one by one."*

- Charles MacKay, Author

MacKay's quote comes from a book he wrote in 1841, entitled Extraordinary Popular Delusions and the Madness of Crowds. It was a book about investor behavior. Although your investments will periodically decline in value, congratulate yourself if you have a long-term investment plan - and you are sticking to it. In time, we believe your patience will be rewarded. If you've stumbled badly or don't have a plan at all, now is the time to get one. Helping investors reach their long-term investment goals - over time, and regardless of market conditions - is our job as a financial advisor.

# Five Ideas for Staying Sane in a Crazy Market

A key part of managing your money is managing your emotions, particularly when the stock market is going through a period of uncertainty. Being able to keep your cool is one of the most valuable skills you can have as an investor.

**STAY ON COURSE BY CONTINUING TO SAVE**

Even if the value of your holdings fluctuates, regularly adding to an account that's designed for a long-term goal may cushion the emotional impact of market swings. If losses are offset even in part by new savings, the bottom- line number on your statement might not be quite so discouraging.

If you're using dollar-cost averaging—investing a specific amount regularly regardless of fluctuating price levels--you may be getting a bargain by buying when prices are down.

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However, dollar-cost averaging can't guarantee a profit or protect against a loss, and you should consider your financial ability to continue purchases through periods of low price levels.

**STICK WITH YOUR GAME PLAN**

Solid asset allocation is the basis of sound investing. One of the reasons a diversified portfolio is so important is that strong performance of some investments may help offset poor performance by others. Even with an appropriate asset allocation, some parts of a portfolio may struggle at any given time. Diversification can't guarantee a profit or protect against a loss, but it can help you balance risks.

**LOOK IN THE REAR-VIEW MIRROR**

If you're investing long term, sometimes it helps to take a look back and see how far you've come. If your portfolio is down this year, it can be easy to forget any progress you may already have made over the years, though past performance is no guarantee of future returns.

Think about why you made a specific investment in the first place. That can help you determine if it still deserves a place in your investing strategy. Understanding how a specific holding fits in your portfolio also can help you consider whether a lower price might actually represent a buying opportunity. If you don't know an investment's purpose in your overall strategy, now's the time to find out.

**REMEMBER THAT EVERYTHING'S RELATIVE**

Most of the variance in the returns of different portfolios is generally attributable to their asset allocations. If you've got a well-diversified portfolio, it could be useful to compare its overall performance to relevant benchmarks. If you find that your investments are at least matching those benchmarks, that realization might help you feel better about your overall strategy.

**REMIND YOURSELF THAT NOTHING LASTS FOREVER**

Ups and downs are normal for the stock market. If you regret not selling at a market peak, or missed a bargain, remember that you're likely to have other opportunities at some point. Having predetermined guidelines for buying and selling can prevent emotion from dictating investment decisions.

## *In My Opinion . . .*

*Robert J. Cole, Jr., CLU, ChFC, CASL, CFP®*

# May You Live in Interesting Times . . .

### A Chinese Proverb

It was Saturday evening and my wife and I were relaxing on our deck enjoying the serenity of our oriental garden. The previous night we had our big house warming party. All the clean up was done and we were "finished" with the renovation project that had been our focus for most of the year. We discussed where we would now direct our energies. We had our quarterly family brunch scheduled at our club the next morning. Life was good.

During our Sunday brunch, Hurricane Ike visited Louisville. For the first time in its history, our city experienced a Category One hurricane. For over two hours, winds gusting up to eighty miles per hour lashed the city. When it was over, 300,000 people were without electricity and the city's tree population was mauled. Many people (including us) were without power for almost a week.

On Monday the Dow Jones Average dropped over 500 points. The following five days saw triple digit swings. There was the "failure" of several large financial services companies. A financial "hurricane" was blowing through Wall Street, also leaving many people feeling powerless. The week ended with the proposal by Washington of a massive bailout package.

The same week saw our city hosting the Ryder Cup, a prestigious international golf event. The U.S. team took home a victory after a nine year drought. There were many parties and events. The city shook off its woes and played its role to its many guests.

A week later, we sat again on our porch . . . the Dow was back about where it had been a week earlier. Our power had been restored. We had enjoyed a few of the celebrations and we wondered what the next week would bring. There was a feeling that a circle had been closed.

Life does not unfold according to your plan. In fact, your plan must adapt to life. The feeling of stability is just that - a feeling. Reality is rarely stable. The only sense of constancy you can cultivate is your own. A well designed life plan, that has been thoughtfully constructed, can be a source of peace in the chaotic world in which we live. It will allow you to absorb the shocks of change and still keep your balance. It adds perspective to confusion. In short, it helps give you more confidence about the future by providing a sense of direction.

We are proud of the role we play for our clients in this process. These interesting times do nothing more than strengthen the commitment to the life plans that we have helped people craft. So, look forward to the next predicament - it's going to make you a better person.

Until next time, that's my opinion.

*Robert J. Cole, Jr., CLU, ChFC, CASL, CFP®*
*President*