June 6, 2008

The Fist Step is Acceptance

The pessimist sees only the tunnel; the optimist sees the light at the end of the tunnel; the realist sees the tunnel and the light - and the next tunnel.
-Sydney J. Harris

In theory one would always want to be the realist and see the whole picture, but in practice the realist will rarely take action. It is usually the pessimist - due to fear - or the optimist - due to greed - that will take action. Conventional wisdom leads us to believe that most individuals are pessimistic, optimistic or realistic by nature and that it is difficult to change that mindset. As investors, one would need to be a realist to see the whole picture while at the same time allowing, through reason and logic, the correct motivator of fear or greed to direct the appropriate action. Because our firm functions as a collective of individuals we can be all three mindsets at all times - without being admitted into the loony house. Our unique ability to function in this manner has allowed us to successfully manage your portfolio over the past quarter.

In the past year we have been very pessimistic about the health of the financial markets, and we have taken protective measures to shield your money from the volatility that has taken place. About a year ago the S&P 500 peaked at 1576.09 then slid recently to hit a 52-week low of 1200.44 (over a 20% drop). As you have undoubtedly noticed, your accounts have avoided the vast majority of the violent swings that have been felt by the market and therefore other investors over the last 12 months. Instead of losing vast amounts of money over the last 12 months and more specifically the second quarter of 2008 as many investors have, your accounts (please refer to your account statements) have had fairly neutral performance and in many cases have seen a slight gain.

Now that the mindset and language of the financial markets have begun to change, Excelcia Financial Group is becoming more optimistic for the future. Looking back at recent history gives us a better understanding of how far we have actually come. In early 2007 we started witnessing the closures of subprime lenders, then credit markets started to seize-up, and in late 2007 we witnessed the beginning of massive bank write downs as the deleveraging of financial assets took hold. As all of this was unraveling the public was told things were contained, there would be no spillover, and the Fed was going to make it all better! Now that it is clear those statements were ALL wrong it seems as though investors have re-priced risk and have begun to accept that the issues at hand will take some time and sacrifice to get through.

The markets have all clearly crossed into Bear Market territory and people now accept the possibility that homes prices can, and are, going down. This may seem trivial but it is actually quite a leap from where we were just 12 months ago. Banks are finally selling assets, cutting dividends and raising reserves. Companies are concentrating again on their core businesses and cutting costs. Of course this will cause short-term pain but long run prospects have significantly improved from these actions. Long-term prospects for the economy are looking brighter so we will begin to cautiously build exposure to the stock markets to participate in this future growth.

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We are still being vigilant due to short-term instability in the market and our focus is to protect your purchasing power. There will be changes to the portfolio in the next few weeks. Please feel free to give us a call if you have any questions regarding these changes. Our objective has been and will continue to be to protect the assets that you have worked so hard to accumulate and look to grow them prudently.

Thank You,

Excelcia Financial Group

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