

Schultz Financial Mgmt Corp - Investment Commentary

Volume 1

11/10/2008

Dear Investors,

As you may have heard, October was the 3rd worst month in the history of the United States stock market. However, damage was not limited to stocks. Corporate bonds and municipal bonds also dropped in value dramatically as the credit market seized up.

According to Morningstar, the average balanced fund (mutual funds with 60% stocks) was down 26.6% since the beginning of the year through Oct 31st. The average moderate allocation fund (mutual funds with 40% stocks) was down 18.2%.

With respect to pure stock funds, the U.S. large cap value funds have not performed much better than large cap growth funds largely due to the struggling financial sector. The average large cap value fund was down 33.6% through October. Foreign stock markets fared even worse, down more than 44% over the same period.

While not satisfied with our investment performance, I do feel we have managed to limit the damage in a number of our investment strategies.

- **Dividend Income Stocks:** We mostly avoided financial stocks in our Dividend Income Stock strategy during the last 12 months and increased our exposure to consumer staples and health care stocks. As a result our year to date returns were about 10% better than the average large cap value fund through October.
- **Market Timed Stocks:** With our trend following stock strategies we have been fully hedged or in cash each time the stock market made new intermediate lows in January, March, July, and recently in October. As a result our year to date returns in these strategies are 20-30% better than their respective category averages through October.
- **Market Timed Bonds:** Our trend following bond strategy has been invested in money market funds during most of the year and we have been able to maintain a positive return. This compares favorably to most bond funds which are down 5-10% or high yield bond funds which are down more than 20%.

The recent market declines caused a temporary setback, but present an opportunity to put our cash back to work and invest in stock and bonds at much more favorable prices going forward.

In the near term, I see potential for high returns in bonds as new up-trends start to develop in various types of bond funds including investment grade bonds, high yields, foreign bonds, and preferreds. We will take advantage of these upcoming trends in our Market Timed Bond strategy.

With respect to stocks, I believe we have put in an intermediate bottom in October, but expect the stock market to continue to oscillate in a wide trading range over the next few months. Because of this extreme volatility, I intend to manage the market timed stock strategies in a more conservative fashion than usual.

I appreciate your patience during these extraordinary times and welcome you to call me anytime to discuss your investment portfolio or to set up an appointment. Please feel free to call me on my cell phone during evenings and weekends as well.

Richard Schultz, CFP
www.schultzfinancial.com
714-731-0848