

MARKET RETURNS					
	Aug. 1 to Sept. 9	Year-to-Date		Aug. 1 to Sept. 9	Year-to-Date
Dow Jones	-11.5%	-5.1%	MSCI EAFE	-16.3%	-15.2%
S&P 500	-10.7%	-8.2%	MSCI Emerg Mkts	-12.8%	-13.8%

August Thru Early September The last 18 weeks have been brutal. Since May 1st, the Russell 1000 Index, representing the largest 1,000 US companies, dropped 10.7%. Given the market's performance during the past two summers, perhaps in the future we should heed the Wall Street adage, "Sell in May and go away."

Unfortunately, once one capitulates and joins the growing consensus, the trade becomes crowded and the rules change. Most recent evidence of a "crowded trade" was the market entering September 2010. Fear ruled because of the same concerns currently roiling markets, plus there was agreement among pundits that September and October are historically the market's worst month. What ensued were strong market gains, with the S&P 500 rising 8.3% in September and 3.7% in October. So much for conventional "wisdom."

Legendary John Bogle The first draft of this month's market commentary began as a rant against high frequency traders, hedge funds, and their trading vehicle of choice, Exchange Traded Funds (ETFs). Then on Saturday, WSJ.com conducted an interview with John Bogle, founder of Vanguard funds and pioneer of index investing. The interview, "Why John Bogle is Upbeat About Stocks," dealt not only with the abuse of ETFs, but also the current economic state and what investors should do to survive. Since Mr. Bogle's words rightfully carry more weight than ours, we scrapped our draft and will, instead, quote him:

"It (economic conditions) all comes down to single word called reliquification. We all got over-leveraged, over-borrowed; banks, individuals. The whole world got too much debt and used the proceeds of that debt in all those cases to spend.

So we are overspending and you have got to come back and start saving where you were spending and it is going to be a big economic drag.....As far as I can tell the only answer to that is to be patient and let time heal. It is going to take a lot of time and the problems are incredibly serious and frightening to anybody, but does that mean you should never invest? Well, the one way of being sure you are not going to accumulate a penny is not to invest. So you have to do something and the options are not good today, but the market returns are there. They are low, but you know you shouldn't go beyond market returns and try to capture more. So be prepared for a lot of volatility in these speculative, incredibly speculative markets, but stay the course by having an anchor to windward...dry powder in the form of bonds that will protect your emotions from messing up your investment program. A little safety and then just bull it through."

When asked, "Do you think indexing, your creation, has gotten out of hand?" He responded, *"The answer to that is unequivocally, yes...You take a good idea...and it can be bastardized, and it has been bastardized... my understanding is, forty percent of all the stock trading in the US now takes place in index funds, not the conventional index funds that I designed to be bought and held forever but by ETFs. The amount of speculation in ETFs is on the edge of insanity. Not only in the narrow areas of the markets they often cover, gold would be a good example right now, but also when you can double leverage and triple leverage, and that's not good enough. That only allows you to bet on the upside, you have got to have double and triple leverage on the downside. Those are just great big gambling, speculative instruments that have definitely destabilized the market...The Standard & Poor's SPDR Index (SPY)...turns over 10,000 percent a year I think 20% a year is excessive, it is a little bit of Dr. Frankenstein over here and some kind of monster was built out of what I created."*

It is comforting in these turbulent markets to be in agreement with such good company. Especially someone who has seen it all before.