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NOTE FROM KATHLEEN...

Through meeting with a large portion of our clients this year we have seen a definite change in reaction to this last quarter as opposed to the financial crisis in 2008. We believe this is due to two main reasons. The first is the selective approach the media takes in reporting the current economic situation, especially with regard to the deficit, default, and political malfunction. The second is that recent negative performance was driven to a great extent by Europe's woes. Trying to negotiate markets that are driven by panic and politics is next to impossible in the short term.

As a financial advisor, my role is to help you make objective, goal-based decisions regardless of short-term volatility. However it is equally important that I am aware of my clients' concerns. We will continue to update you when we feel it's necessary but please don't hesitate to contact my office any time you need. We believe, as with every turbulent market, there are potential opportunities. We continue to maintain a strict disciplined approach to diversification through asset allocation and are monitoring our investment positions on a monthly basis.

Thank you for the trust you have placed in me and in my team.

Sincerely,

Kathleen Adams

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MARKET UPDATE

written by Clark Capital Management.

F E A R I S

Stocks suffered significant losses in the third quarter and equity investors of all types feel like they got run over by a truck.

For the quarter, the S&P 500 declined 13.87%, the Nasdaq Composite lost 12.69%, and the Russell 2000 index of small cap stocks plunged 21.87%. While the losses in the major U.S. stock market indices were steep, they pale in comparison to the losses suffered overseas. International markets suffered more of the sting from the European credit mess with the MSCI All Country Europe index dropping 23.00%, MSCI Emerging Markets declined 23.19%, MSCI Germany plunged 25.45%, and MSCI China declined 25.64%. It was the worst quarter for most major indices since the fourth quarter of 2008. For global equity investors there really wasn't anywhere to hide.*

It may be small consolation that the third quarter is over because the markets are likely to remain volatile in the near-term. However, if history is any guide we should expect a much better fourth quarter. September is normally the worst month of the year for the markets. October, even though it is known for new lows, is also known as the “bear killer” month because many bear trends have ended in October and many times with dramatic rebounds. October has marked bear market lows in '46, '57, '60, '62, '66, '74, '87, '90, '98, '01 and '02.

**Indexes mentioned are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.*

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“The financial world is a mess, both in the United States and abroad. Its problems, moreover, have been leaking into the general economy and the leaks are turning into a gusher. In the near term, unemployment will rise, business activity will falter and headlines will continue to be scary.

“I’VE BEEN BUYING STOCKS.”

So wrote one Warren E. Buffett—the world’s most admired yet least imitated investor—in a New York Times op-ed piece published on October 18, 2008, about a month into the post-Lehman Great Panic then engulfing the world.

(For the record, October 18 was a Saturday; the S&P 500 had closed the night before at 940.55, on its way to 677 five months later. And every day in between, somebody or other blogged that the old man had finally lost his touch. As I write, the S&P is trading at 1285, and the Buffett-bashers are nowhere to be found. But I digress.)

The point Buffett was trying to make—and the point of the little meditation you are reading now—is that periods of well-publicized economic and financial distress have historically turned out to be periods of above-average opportunity in equities. And why? Because such distress usually engenders widespread fear, which in turn leads to waves of panic selling, which in turn drives the prices of the great companies in America and the world down to very attractive valuations.

In just that sense, fear is the true friend of the long-term investor. And the corollary of that insight is that episodes when you are feeling the most fear—and everyone around you is reflecting that same heightened sense of fear—have historically been the worst possible times to give in to, and to act upon, that fear.

No one is suggesting that you not feel fear, because it’s a response that’s hard-wired into all of us. When some no-name catastrophist is suddenly all over the airwaves, predicting that the debt ceiling crisis is insoluble,

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and that it must and will lead to a new Great Depression—and especially when our friends and neighbors begin taking up this refrain, amid falling stock prices—we would simply not be human if we didn't feel some fear.

The trick is, at the very least, not to act on the fear, which in this context means: don't panic out of the quality equity investments that you've accumulated for long-term goals such as education and (especially) retirement. And at best, of course, the optimum response to fear has been to recognize it as a breeder of enhanced opportunity—indeed, the greater the fear, the greater the opportunity has always been—and to continue accumulating shares in your quality portfolios at distressed prices. The latter is precisely what Buffett was doing in October 2008: he was recognizing that fear was his friend.

The issue here isn't just impulse control ("I may be feeling a lot of fear, but that doesn't mean I have to act on it"). It's the hard-headed business judgment—shared, I assure you, by all successful long-term investors—that the current market prices of the great companies are inversely related to their long-term value as operating businesses. Lower stock prices—the concomitant of widespread fear—have always meant greater long-term enterprise value. Investment success is as rare as it is because this common-sense realization is so terribly uncommon.

This leads us to the realization that if there's one supremely reliable way of conquering fear in the context we're discussing, it's to think of our equity holdings not as "stocks" but as companies—as rational, profit-seeking businesses operating in an increasingly global economy.

There were fewer than 300 million middle class people in Asia in 1980, according to studies by the United Nations and the World Bank. Today there are over two billion,

and by 2025 there may be as many as 3.6 billion. Global spending by the middle class, according to the OECD, was recently just over US \$21 trillion. It may be US\$35 trillion by 2020, and US \$55 trillion by 2030, with as much as 80% of the projected growth expected to come from Asia alone.

What must the long-term implications of these megatrends be for great businesses? How much more must their long-term enterprise values be driven by this unprecedented global surge in the quality of everyday life, as opposed to the volatility—the sheer day-to-day irrationality—of "the stock market"?

I'd be willing to bet that the price of your home, measured from its bubble top half a dozen years ago, is down about 30%. You haven't sold—you still need a place to live—and you're generally philosophical: the price probably went up too much back then, and it's probably down too much now. Long-term, a home's price will probably track its replacement cost, which tends to rise gradually over time with inflation in land, labor and material costs. So be it.

But let your equity portfolio go down 30%—which the S&P 500 has done, on average, one year in five since the end of WWII—and you're ready to jump out a window, if only to get away from doom-and-gloom-shrieking commentators, howling "It's different this time."

You have a choice. You always have a choice. Believe the doomsayers, give in to the fear...and wonder, a year or two later, what you could possibly have been thinking. Or choose to see fear as the driver of lower prices and therefore of increased values—a 30%-off sale on the great companies—and prosper in the long run.

F E A R I S Y O U R F R I E N D ,
I F Y O U L E T I T B E

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EUROPE, WHAT DOES IT ALL MEAN?

... some definitions

ECB **The European Central Bank (ECB)** is the institution of the European Union (EU) that administers the monetary policy of the 17 EU Eurozone member states. It is thus one of the world's most important central banks.

EFSSF **The European Financial Stability Facility (EFSSF)** is a special purpose vehicle financed by members of the Eurozone to combat the European sovereign debt crisis. It was agreed by the 27 member states of the European Union on May 9, 2010, aiming at preserving financial stability in Europe by providing financial assistance to Eurozone states in economic difficulty.

PIGS is an acronym used by international bond analysts, academics, and the economic press that refers to the economies of **Portugal, Italy, Greece, and Spain**, and sometimes Ireland—often in regard to matters relating to sovereign debt markets.

Angela Dorothea Merkel, **the Chancellor of Germany** (since 22 November 2005). Merkel is the first female Chancellor of Germany. In 2007, she became the second woman to chair the G8, after Margaret Thatcher.

Contagion financial contagion refers to a situation whereby instability in a specific market or institution is transmitted to one or several other markets or institutions.

Nicolas Sarkozy **is the 23rd and current President of the French Republic and ex officio Co-Prince of Andorra.** He assumed the office on 16 May 2007 after defeating the Socialist Party candidate Ségolène Royal 10 days earlier.

WHAT'S NEW WITH US

Katie Adams is now Katie O'Neill! On October 1st Katie Adams and Dennis O'Neill got married at the Wit Hotel in our hometown Chicago. It was a wonderful weekend shared by lots of friends and family. Katie is now back at work after her honeymoon, look for her new email address in the next couple weeks!



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