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**Managing Director:**

Christopher B. Pelley

**Managing Partners:**

Chad Williams

Ali Yousaf

**Senior Advisors:**

Gregg Dirks

**CIMCO Team:**

Blossom Ficklin

Susan Geraghty

Ben Marwitz

Steve Rice

Linda Salmons

Nancy Tagovailoa

Jaime Thomas

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**Third Quarter Newsletter**

## Volatility is Inherent in Financial Markets – 511 words

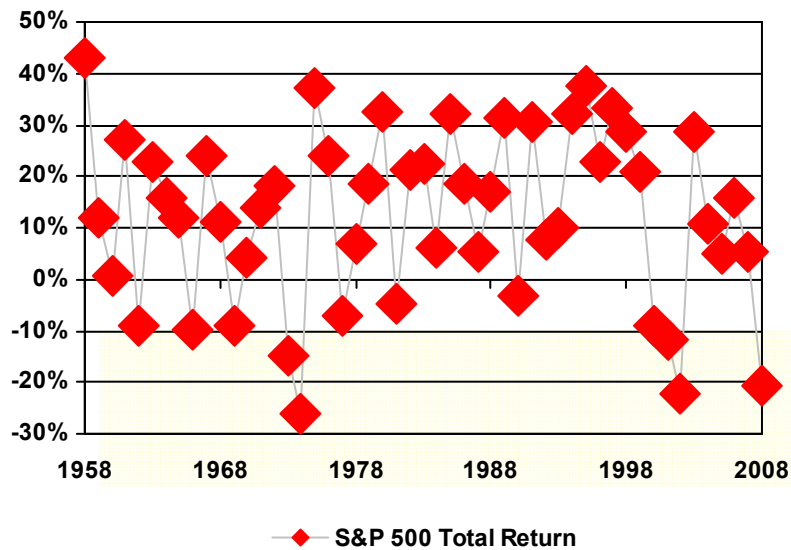
How often have you heard that over the long run the stock market has returned a compound annual growth rate of 10%? The number is usually accompanied by a graphic showing the growth of a stock market index that looks like a never ending upward climb.

While both the number and the graphic are historically accurate with respect to the S&P 500, before you base any financial plans on a 10% return, you need to take another look at annual returns.

The problem with using 10% as a return expectation is that very few investors realize the volatility that the market goes through to get to that annual compound return, or how long it could take for a portfolio to achieve a 10% annual compound return. Your odds of achieving a 10% average are much greater if you have 50 years to invest than if you have 15, and even then there are no guarantees.

There have been numerous periods that have both underperformed and out performed this number. Most recently, the S&P 500 stock index has returned a compound annual return of just 1.8% a year including dividends for the 10 years ended September 30, 2008. In the last 50 years, there has only been one year when the total return of the S&P 500 was actually 10% - 1993. The remaining 49 years, the annual total return for the stocks in the index has ranged from a high of 43% in 1958 to a low of -26% in 1974, as shown in the scatter gram below.

**Standard and Poor's 500 Index  
Annual Total Return 1958-2008 YTD**



Past performance is not indicative of future returns. The S&P 500 is an index and as such cannot be invested in directly.

Volatility also impacts withdrawals from a diversified equity portfolio in retirement. Many retirees assume they can withdraw up to 10% a year without impacting the principal balance of their accounts. It doesn't work that way. Withdraw 10% in a year when your portfolio is down and you erode the ability of your portfolio to recover.

*Data from Yahoo Finance and Ibbotson.*

Market volatility is the number one reason for professional management. A portfolio that works for you needs to be designed with the realities of market volatility as part of the mix. Historical performance data is just that, historical. The main lesson it has to offer is that volatility is a part of equity investing.

Do-it-yourself investing advice typically comes down to “invest in index funds, save a ton and reallocate infrequently.” This approach is based on the theory that investing in different segments of the market represented by the indexes will smooth overall return, reducing volatility. Unfortunately this tends to be true primarily on the upside. In major market declines, most asset classes have a tendency to move in sync. Non-correlation diminishes in crises, just when you need it the most

If you don't have the ability to buy and hold through a sufficiently lengthy period to achieve long-run average performance, you need to look at alternative strategies and investments that can offer non-correlation to equity investments. That's where we come in.

### **Worried that You Won't Have Enough Money in Retirement?**

A rule of thumb in preparing for retirement is to anticipate needing 75% of your current income to maintain your same lifestyle in retirement. Like many rules of thumb, it doesn't fit every situation. It's essential to look at your specific situation, not generalities or rules of thumb.

The best way to decide when you afford to retire, or if you have enough money now that you are retired, is to know what your monthly expenses are, how they might change in the future, and what additional activities/costs you want to add. With this information you will have a better understanding of what your lifestyle costs, where

you might see lower (or higher) costs in the future and how long your savings could last at this level of spending

To start, complete a monthly budget based on your current expenses and estimated future expenses:

Review these expenses for items that will change over time or when you retire. Will your mortgage be paid off? Will you continue to have car payments or personal loan payments? Will your clothing budget be as high? Hopefully, childcare expenses are history, but there could be grandchildren expenses.

Next, think about what you want to do in retirement and expenses that might be associated with those activities. Joining a golf club, traveling, and/or an RV purchase could add new costs to your budget that need to be considered. After all there's no point in retiring if you don't enjoy it.

Naturally, there are two more related issues to consider -- how long you might live and the impact of inflation on your income requirements. How long is going to depend on your heredity, your current health and ongoing improvements in medical care. At this time, the average lifespan for women is 80; for men it's 75, and rising.

Over the last 10 years, inflation has stayed in the range of 2.5% annually, with a high of 3.4%. At 2.5% inflation, your expenses will be 10% higher in four years, 25% higher in nine years and double their current level in 28 years.

Given those numbers, it's time to sit down with your financial advisor and look at how much you currently have in assets, the expected return from your investments and what that means in terms of retirement income.



September was a historic and tumultuous month that reshaped the financial system. During the month, the government took over two mortgage giants; provided a capital infusion to and took an equity stake in a private insurer; temporarily insured money market funds; provided massive cash injections and expanded lending programs; temporarily banned the short selling of primarily financial stocks; and allowed the two major remaining independent investment banks to convert to bank holding companies.

Also during the month, the largest U.S. bankruptcy (an investment bank) and the largest bank failure ever in U.S. history occurred; consolidation of commercial banks was expedited (and often government arranged); and global central banks injected large amounts of liquidity into global markets.

The House of Representatives initially rejected the proposed Troubled Asset Relief Program (TARP) bill. With both the administration and Congress working together to expeditiously move the legislation forward, Congress passed a compromise package. • Risk aversion was severe during September, and investors sought the quality and safety of government securities, pushing short-term yields below 1%. Non-government sources of short-term lending/borrowing have essentially closed down.

We expect that corporate earnings will continue to ease, as consumer spending – which accounts for about 70% of Gross Domestic Product – weakens. We believe that consensus expectations for growth in 2008 and 2009 are too optimistic and that consensus estimates may be revised lower.

In our opinion, there is still no clear sign of a bottom in the housing market, and with mortgage security-related difficulties and more stringent lending criteria, it is uncertain when this drag on the broader economy will subside. Housing market's stabilization – and eventual recovery – remains the key catalyst to a rebound in global growth prospects.

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### CIMCO Portfolio Update

The financial difficulties, as well as investors' fear and loss of confidence in the financial system, may take time to repair. Through this period, we believe that markets will likely remain volatile and pressure on asset prices is likely to continue.

Periods of severe market volatility are actually not that uncommon, and there is one common trait shared by these difficult investing periods: the creation and manifestation of opportunity.

We view the current market environment as challenging, but we remain focused on the investments and economic factors that we believe drive long-term security prices: valuation, corporate earnings growth, real economic growth, and the overall level of interest rates.

While we anticipate that recent events are not the last of the “bad news” to come out of the capital markets or the economy, we remain positive regarding the long-term prospects of the investing landscape.

As for client portfolios, small- and mid-cap indices showed signs of strength early on in the quarter and so some of our signals moved us into small- and mid-cap mutual funds during the quarter. Also, near the end of the quarter the market got progressively weaker which caused most of our hedging signals to trigger, thereby causing us to move most of our portfolios into defensively-hedged positions. By the end of the quarter, September 30, most of our portfolios were immune to the wild market movements seen in the first 2 weeks of October.

## Know Your Insurance Limits

The recent failures of what were once icons of the U.S. financial industry make this a good time to take a close look at deposit insurance and what it covers.

The Federal Deposit Insurance Corporation (FDIC), an independent agency of the U.S. government, protects you against the loss of your deposits if an FDIC-insured bank or savings association fails. Banks (whether internet or brick and mortar) with the same parent are considered a single bank.

Effective Oct. 3, 2008 through December 31, 2009, basic FDIC deposit insurance coverage limits for the most common forms of ownership are as follows: Single Accounts (owned by one person) \$250,000; Joint Accounts (two or more persons) \$250,000 per co-owner; IRAs and certain other retirement accounts, \$250,000 per owner; Trust Accounts, \$250,000 per owner per beneficiary subject to specific limitations and requirements. For more information, visit [www.myFDICinsurance.gov](http://www.myFDICinsurance.gov).

In response to the current credit crisis, the Treasury Department opened up a temporary guarantee program for U.S. money market funds that pay a fee to participate in FDIC insurance. The program provides a guarantee on a fund-by-fund basis up to the amount of shares held as of the close of business on September 19, 2008. The guarantee extends for three months unless renewed by the Secretary of the Treasury. There are no per account limitations. Gains and additional deposits subsequent to September 19 are not covered.

The Securities Investor Protection Corporation (SIPC) is an industry-financed insurance plan that protects clients of most broker-dealers registered with the U.S. Securities and Exchange Commission (SEC). SIPC insures customers' securities (up to \$500,000 per account) against losses due to the financial failure of brokerage firms. Coverage of cash in a securities account is limited to \$100,000.

At the very least, make certain your bank and broker are FDIC or SIPC insured. If you have accounts in excess of the insurance limits, you can create additional "persons" through different ownership structures and the use of trusts, but work with a financial professional to make certain these are structured correctly.

## Grow Your Assets in All Markets

There's two ways to increase your financial well being. The first is to earn a good return on your investments that more than offsets inflation and builds real value. The second is to save more.

Over time, there have been numerous periods when market returns dwindle and the value of investments have fallen or stay essentially level. Often these are times that have offered little in terms of opportunities for gain without taking excessive risk. When flat markets happen, the government would really like to see you spend more and help spur the growth of the economy. But it may be in your best interest to increase your savings.

The following are 10 ways to save little amounts that can add up to substantial money over a year.

**Skip the coffee shop.** If you buy three fewer lattes a week at \$4 a cup, you will save \$624 in a year.

**Consolidate your trips.** It can easily cost \$4 in gas each time you go shopping. Cut out three trips a week by consolidating each trip into multiple errands, or reducing the number of days you visit stores and you could save another \$624 over the course of a year.

**Higher deductibles** on your insurance policies (\$1,000 instead of \$500) can save you \$200 or more a year. Don't do this if you are in a high risk area or are a high-risk individ-

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**Look for ways to reduce heating and cooling costs.** In 2007, the average home heating bill in the U.S. was \$1,000. Given the increase in oil prices over the last few months, lowering your heating and cooling power usage as little as 10% could save you more than \$200 this year. \*

**If you buy lottery tickets,** only buy one, not 10. The odds are virtually the same. Ideally, save all your money and don't buy any. Lotteries are a wonderful tax on the poor but a poor way to increase your wealth. Eliminate \$20 a month on lottery tickets and you've another \$240 to put in savings.

**Use coupons,** but just for items you would have bought anyway. If this saves you \$5 per week in groceries, you are \$260 ahead for the year. You can find coupons online at places like [www.couponcabin.com](http://www.couponcabin.com).

**Disconnect your cable TV.** Do you really watch 500 channels? If you like cable for the movies, services such as Netflix are a better deal. High definition television for free is available from local carriers in most cities now. Drop cable and save more than \$500 a year.

**Don't pay any fees** you don't have to. No-fee credit cards (but make certain you have a grace period), no-fee bank accounts, and no fee brokerage accounts abound. Cut \$15 a month in fees and there's another \$180 to save.

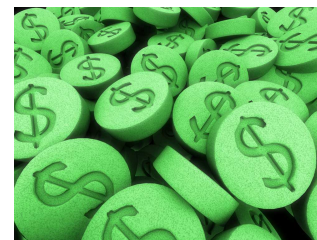
**Boycott ATMs** with service charges and never get cash back on a credit card purchase. The costs for these services may seem small, they add up. Most credit cards have a 3% cash back fee, plus interest starts accruing from the day you take the cash. It may require a little more planning, but take care of your cash needs at the bank or grocery store. Wiping out a \$2 ATM charge every week will save you \$104 a year.

**Shop on line** before you buy any big ticket item. If you find a better deal, take it to your local merchant and ask if they will match the price. If you can't save another \$500 this way each year, you need to sharpen your bargaining skills.

Follow the 10 ideas above and you will have more than \$3,000 in additional funds to invest this year. With luck, you are investing at the bottom of the market cycle and your \$3,000 will grow quickly.

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\* U.S. Energy Information Administration



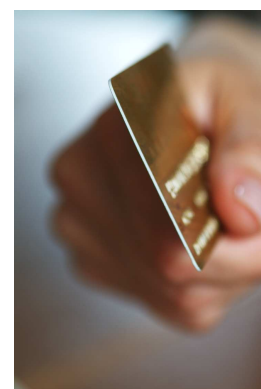
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## Avoid Paying Medical Debt with a Credit Card

Increasingly medical providers are offering customers the opportunity to pay for personal deductibles and non-covered/insured medical care by credit card. But before you do so, make certain you are very comfortable with the charges and your ability to pay the costs.

Once you convert medical debt to credit card debt it becomes more difficult to dispute questionable charges that make up the total bill. You've also eliminated your ability to work out a payment plan or negotiate reduced charges with the medical provider.

Many medical providers hesitate to aggressively pursue low income patients for excessive unpaid balances because it can look bad from a pr stand. Credit card companies do not have the same concerns.



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8055 E. Tufts Ave, Ste. 1350  
Denver, CO 80237  
Phone: 303-221-1000  
www.cimcodenver.com

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