

Dear Client,

It's been a while since our last *Steady at the Helm* e-mail and we thought you might be interested in a brief update on recent developments. For those able to attend our Client Event in June, Liz Ann Sonders (Chief Investment Strategist for Charles Schwab) reported that we had probably passed through the worst of the Great Recession and that the economy would return to a growth mode, albeit sluggish, by the end of the third quarter. While that prediction might have seemed a bit optimistic at the time, over the past few months several leading economic indicators have turned positive and now most economists are in agreement with Liz Ann's forecast.

Market's Emotional Roller Coaster

MAINTAINING DISCIPLINE = KEY TO LONG-TERM SUCCESS



In last month's quarterly letter, I presented Liz Ann's "Emotional Roller Coaster" chart which depicted investor sentiment during both positive and negative periods for the stock market. In re-examining her chart, I noticed a remarkable correlation between the emotional roller coaster (green and red lines) and the stock market's path over the past twelve months (the blue line). From late last summer through the end of November, investors moved through the emotions of unease, denial, pessimism and finally panic when the entire financial system was in crisis and many were predicting another Great Depression. While efforts by the Federal Reserve and US Treasury prevented matters from worsening, investor sentiment continued along a downward path as capitulation and despair drove stock prices down even further by early March. History has taught us that periods of extreme despair and pessimism often represent the best times to own stocks, and the bleak days of March proved to be no exception. From March 9th through the end of July, stocks around the globe rallied by more than 50% representing the biggest short-term rally since the 1930's. It now looks like we've entered the "hope and relief" stage as the worst appears to be over and there are signs the global economy is beginning to recover (i.e., a light at the end of the tunnel?). While these positive developments have buoyed investor sentiment, you'll notice on the chart that stocks are only about half-way back to where they were twelve months ago. So while hope and relief are certainly critical elements in a recovery, we've got a long way to go - perhaps years - before we can even think about feeling euphoric. (And by the way, when we eventually do move upward on the emotional roller coaster toward euphoria, it will be time once again to start trimming back on stocks and buying bonds.)

All of us at Aequitas hope that you enjoy the remainder of summer.

Best regards,

Warner