



FAI Advisors, Inc.

Monthly Investment Commentary

August 2008

Returns in July all over the map

Amidst a lot of uncertainty in the markets, returns in July were all over the map. For equities, in addition to being a volatile month, there were sharp disparities in returns, with larger- and mid-cap domestic stocks experiencing losses, while small-cap stocks saw decent gains. The Vanguard 500 Index Fund, which is based on the S&P 500, lost 0.8%, while the small-cap iShares Russell 2000 Value gained 5.2%. For the first seven months of the year, domestic equity losses

were lined up by market cap, with large-caps losing more than 12%, mid-caps off just over 10%, and small-caps down about 6%. Foreign stocks had a tougher month than domestic (overall), with Vanguard Total International Stock Index Fund off 3.7% in July and over 14% this year. REITs were a bright spot in July, with gains of just over 3% and for the year to date are now down only slightly. Vanguard's Total Bond Market Index Fund was flat on the month, and has managed a modest 1.1% gain for the year through July, underperforming the World Govt Bond index by a fair margin year to date.

Updated Market Data

"A Year in Review"*

	July	YTD		8/08/08	8/08/07	% Chg
Large Cap Benchmarks			Consumer Rates			
Vanguard SP 500	-0.80%	-12.70%	1 Year CD Yld	2.32%	4.90%	-52.65%
Russell 1000 Growth ishares	-1.90%	-10.90%	30 Yr Mortgage	6.41%	6.41%	0.00%
Russell 1000 Value ishares	-0.40%	-13.90%	Prime Rate	5.00%	8.25%	-39.39%
Nasdaq (QQQQ)	0.64%	-11.11%	Commodities			
Dow Jones Indust (DIA)	0.24%	-13.08%	Crude Oil	115.39	72.20	59.82%
Small Cap Benchmarks			Gasoline	3.88	2.88	34.72%
Russell 2000 Growth ishares	2.30%	-6.80%	Gold	855.35	674.20	26.87%
Russell 2000 Value ishares	5.10%	-5.20%				
Other Benchmarks						
Vanguard REIT Index	3.20%	-0.30%				
Vanguard Total Intl Stock Idx	-3.70%	-14.20%				
Vanguard Total Bond Idx	0.00%	1.10%				
Merrill Lynch High Yld bond Idx	-1.60%	-2.80%				
Citigroup World Govt Bond Idx	0.20%	5.20%				
DJ-AIGCI (Commodity Futures)	-11.90%	12.10%				

* Source: JP Morgan Weekly market recap

Downturns and Recoveries

With all the information pushed at us from the financial media, it is easy to lose sight of the inevitable cycles of the economy and the markets. There are many risks we all face when dealing with portfolios, such as: inflation risk, moving interest rates, market risk, and many more. One risk we need to consider is BEHAVIORAL risk. This risk is something we would like to think we have total control over. Many times, however, this risk is difficult to manage.

As we know, an economic slowdown can be made worse by our outlook, the result of our perceptions. Outlook can affect behavior. Sometimes it will have little to do with how we as individuals are actually doing, but how we perceive others as a whole are doing. For example, the consumer sentiment index updated as of June 2008 generated a rating as low as it was back in the early 1980's when prime interest rates were above 15% and unemployment was approximately 8%. Obviously these data figures are substantially worse than what we are experiencing today, leading us to believe that perceptions of consumers are somewhat skewed from reality. But, as they say, perception is reality.

I was talking to a client the other day and he mentioned that his company has been doing well for the past few years. This is great news and we were glad to hear it, but unfortunately the perception of many people is that everyone is doing poorly. It is perceived that there is a great deal of hopelessness out there. No doubt, there are people hurting right now, and being based in Michigan can magnify the negative perception effect. But it shouldn't be surprising to us to see people and organizations that are doing well.

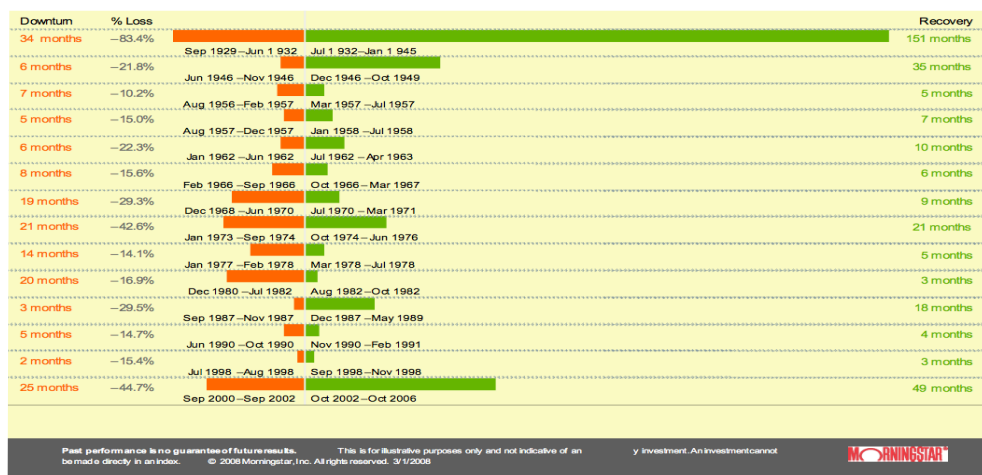
This negative perception effect, the behavioral risk we face, can be harmful to the long term picture of our investment portfolios if not addressed. The following data may be helpful:

Morningstar Research shows that from 1946 to 2006, there have been 13 substantial downturn periods,

with downturn amounts ranging from -10% to over -45%. The average down market period among these 13 periods is just over -22%. (see the chart below)

If we review 2007 and 2008 current market data using the Dow Jones Industrial Average (DOW), it reveals the high on the DOW occurred on October 9, 2007 at 14,164. Alternatively, the lowest point of the DOW to date in this cycle occurred last month on July 15, 2008 closing at 10,962. This pullback represents a drop of 22.60%, close to the average historical downturn over the past 60 years. Additionally, the average recovery period is a fairly short 13 months. Therefore, on average, the market pulled back 22% and took 13 months to make up all the losses.

**Market Downturns and Recoveries
1926-2007**



What does all this tell us? It doesn't tell us that we can expect to be fully recovered in 13 months, because we just don't know. There are many things that need to be worked through as it relates to the banking and credit issues, energy prices, and inflation, but we do know that we need to keep a broader perspective because historically markets tend to recover quickly. If we fail to stay disciplined, we can miss the needed participation in the recovery period.

If we are experiencing a market bottom range for this cycle, staying focused will be rewarded later when we look back at the above Morningstar chart showing 2008 as a historical period. It is through adherence to portfolio models that we can stay focused on risk management and growth during downturns and during recoveries.

FAI Advisors, Inc.
Investment Policy Committee (8/15/08)

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