



Recession Perspectives

Todd Brand, President

"The stock market has successfully forecast nine of the last four recessions." Paul A. Samuelson, Nobel Laureate - Economics

Recession. There. I said it. Technically, it's two consecutive quarters of negative GDP (Gross Domestic Product) growth. Typically, it lasts just over 3 quarters (10 months on average) - i.e. we make less *stuff* for less than a year.

I've been feeling it for months. We're due. It's been more than five good and long years since we've had to utter the word. It almost feels good to say it. Recessssioooooonnn. That was nice.

I started my career in the middle of the 1990 recession. I got married at the beginning of one in 2000. I just turned 40 to potentially kick another one off. At least that's what appears to be happening according to some market observers.

In this issue of the Compass, I want to spend a little time discussing the R word. It means different things to different people. If you are tenuously employed by a company considering shipping their manufacturing overseas, and you have kids in college whose expenses you funded with a home equity line, and you have squat in personal savings, then a recession can cause depression, at least at a personal level. Clearly, recessions have a real impact on lots of Americans.

If your situation doesn't parallel that list above, then recession can mean something else. I'd suggest an interesting twist on the definition. *Recession: A naturally and periodically occurring economic event where equity markets often recover from their poor performance that preceded the announcement of the recession.* It's tough to track with that last sentence but truth is buried in it. Recessions can be ok, if not attractive times to be an investor. I'm not talking about all recessions here, but I am referring to the last three which takes us back to 1981. In these three occasions, the markets have experienced some level of recovery...during the recession. It has been the fearful selling of securities

in anticipation of recession that helped create the impression that recessions are a bad time to be fully invested.

Our view is different. Of importance, the quote at the beginning of this article rings true for us. We may not slip into recession. The Federal Reserve is certainly trying to stave off the results of a housing correction, a sub-prime lending implosion, \$100 oil and who knows, maybe an election outcome. The consensus now for the January Federal Open Market Committee Meeting is that Mr. Bernanke will cut rates 0.25% at a minimum, 0.50% if he's smart, and 0.75% if he's nice. The market recovery we did not get with his last two cuts in October and December may just be forced to occur after this next one. Just a thought from an optimist.



In the worst recession of the last 25 years, July of 1981 through December of 1982, the annualized returns of various asset classes weren't something to be feared. In fact, those returns were compellingly good. Bonds returned 25.6%, US Large Value stocks clipped along at 18.2%, Real Estate (REITS) were up 11.7%, and US Large Growth stocks followed at 10.8%. International Stocks did decline 2.3% on an annualized basis. This may not be great, but it is surely not a disaster. Can I sell you on recession with those numbers?

Let's look at the next recession running from July of 1990 through March of 1991. In this case, Growth Stocks led the way at 12.1% annualized, Bonds followed at 9.0%, REITS returned 8.2%, Value Stocks followed at 3% and Foreign Stocks lagged at -6.4%. Since then, we have had only one more recession to report. April 2001 through December 2001 found that REITS led the way at 13.5%, followed by Bonds at 5.2%, Growth Stocks at 1.3% and then Value Stocks at 0.3%. Yet again, Foreign Stocks trailed at -9.0% annualized.

The quote "When America sneezes, the world gets a cold," probably has its roots in that historical record.

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It's worth restating that we're talking about recession from the standpoint of a global investor. This, as opposed to the impact on the economy in which that investor resides. In essence, we are attempting to de-link, at least in real time, economic results from market results.

In sharing these thoughts, we seek to encourage you in a few key ways. First, recessions are not typically long-lasting events. In the last 324 months, we've only technically been in recession for about 36 of them. Second, they generally have impacted the economy as a whole more directly than the individual investor in that economy. Third, diversified investors are likely to see investment returns that are not predictably better or worse than their longer-term expectations.

So....in the face of high levels of frenzied commentary on the R word, we wanted to take a minute to suggest that a muted psychological and financial response to that commentary might just be the most prudent approach. We believe very strongly that it is.

This leads me to a larger concern on the horizon – the “I” word - Inflation. If I as an investor had to pick from one of these two evils, I would take recession every time. We'll look more specifically at the impact of and projection for inflation in our next issue of the Compass.

New Advisor

Brad Davis, Advisor

Hello, my name is Brad Davis and I'm the newest Advisor at Brand AMG. Since joining the firm in early August, I've already met with or spoken to many of you. That said, I look forward to our future encounters and hope to build many fruitful relationships in the months and years to come.

In order for this to be an effective introduction, I suppose I should tell you a little more about myself. While I'm not a St. Louis native, I've been here since graduating from the University of Kansas in 2000 with a B.S. in Business Administration/Finance. Although I had the good fortune of playing on the varsity golf team all four years, my decision not to pursue a career in professional golf stems primarily from two things: 1) Tiger Woods is very good, and 2) it's difficult to maintain a solid family life if you're always on the road. Regarding my family, I've been

blessed by the love and support of my wife Cari, and we enjoy our three sons Bennett (6), Tyler (5), and Bryce (1).

In terms of work experience, I've been employed in the securities industry as an analyst for the last seven years. I began my career researching gas utility stocks at A.G. Edwards & Sons, Inc. A move to NISA Investment Advisors, LLC several years ago afforded me the opportunity to analyze corporate bonds across numerous industry sectors on behalf of the firm's large institutional clients. Beyond these work responsibilities, I earned the right to use the Chartered Financial Analyst (CFA) designation in 2004.

While the knowledge gained in these past positions will hopefully be of benefit to you, the clients of Brand AMG, it is my strong desire to actively help individuals in achieving their financial goals that will truly be of value. I'm extremely excited by this new opportunity that I've been given and look forward with great anticipation.

*2008 Ladies Lunch
& Learn*

Save the Date!

October 3, 2008



Fourth Annual

Ladies Lunch & Learn

Held at Forest Hills Country Club

10:30 a.m. to 1:30 p.m.

*For more information contact Jessica
Duvall at jduvall@brandamg.com or
call 636.532.7333*

Stick to the Plan

Phil Daniels, Advisor

A wise man once said “Determine in the light what you’ll do in the dark.”

Periods of market weakness and volatility like we’re currently experiencing test the conviction of even seasoned investors. Coming into such markets with a well-developed strategy in place can take some of the anxiousness out of the experience. It is “anxiousness”, we commonly find, that often provides the fuel for poor decisions. In this case, we’ll call a poor decision one that is “not according to plan.” After all, that plan was made in the light when theoretically you weren’t... anxious. It was based on your personal goals, return objectives, timelines, tax brackets and tolerances for risk. And now, for the umpteenth time, your plan is being tested.

As we’ve shared with you many times, it is generally understood that the most impactful decision you will make in the management of your wealth is the decision of Asset Allocation, i.e. how your wealth will be diversified across the available categories of investments (stocks, bonds & cash at the broadest level). This one decision, according to academic study after study, is the key determinant of the risk and return relationship in your portfolio structure. Yet knowing this fact and letting it help you in times of uncertainty are two very different things. Unfortunately, it’s easy to lose sight of your long-term objectives and deviate from your plan when the near term noise increases. As I type this, the noise is loud. It’s oil at \$100/barrel, an election year, a potential recession and a subprime lending fiasco. That’s a lot of noise.

Let’s put the current stock market volatility caused by this noise into context. As the market moves through higher levels, the daily point change will be larger without necessarily being any more significant. We’ll likely have more 200 plus point movements in the Dow (up and down) because the Dow is trading around 12,600. But on a percentage basis, these moves aren’t much different that what we’ve experienced historically.

Perhaps an illustration would help. On black Monday, October 19, 1987, the Dow dropped 508 points from 2,247 for a 22.6% one day drop. At current levels (12,606 as of the close on 1/11/08), a 500 point decline would only be 3.97%. If we were to have a similar percentage drop it would be 2,849 points. The point is that the 200 to 300 point daily moves that we’ve seen

recently are, in perspective, normal. We’ll likely continue to see them going forward and we look forward to that day when the Dow is at 25,000 and we can calmly enjoy 500 point moves without losing sleep or getting too excited.

We have a point in sharing this perspective with you. When we develop portfolios, they are constructed to help achieve your long term objectives despite a variety of market conditions that will inevitably be good, bad or ugly. The global diversification within your allocation is extensive so that during a meaningful decline in any one asset class there is likely to be other categories that perform better. A simple proof point of this is the bond market return versus the stock market return since the recent high-water mark on October 9th, 2007. From that date through today (January 14, 2008), the stock market (S&P 500 Index) is down about 9.5%. In that same span, the bond market (Lehman Brothers Aggregate Bond Index) is up about 4.5%. It’s not hard to see that a portfolio’s return will be largely impacted by the simple math of their stock/bond ratio. That’s a small but simple analysis that helps confirm the points we’ve been making.



For clients who experienced the bear market of 2000 through 2002 with our firm, you’ll remember that being globally well diversified allowed your portfolios to better weather that negative period in comparison to the specific declines of the Dow, S&P 500 or the NASDAQ. During that period of extreme (S&P 500 Index down about 50% from it’s 2000 highs) and prolonged (31 months peak to trough) weakness, plans were tested as were the beliefs and assumptions upon which they were based. Less than 1% of our clients modified their Asset Allocation during that experience. Determine in the light what you’ll do in the dark. It’s not currently “dark” in our professional opinion - but it’s dusky. This is why we’re writing to you on this topic. We’re hoping to encourage you that you do have a well thought out plan. That plan resulted in an allocation that you and we believe makes sense given the ever-present uncertainty that feels a bit more pronounced right now.

On the flip side of the coin, we recognize that it is also appropriate to confirm and sometimes modify an Asset Allocation. We are always available to re-evaluate whether your specific strategy continues to be appropriate. However, we feel strongly that the decision

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to modify your allocation should be driven by a change in your life and unique circumstances, not as a reaction to the ever volatile and noisy markets.

The default position in weak markets will be just a bit different for you than for many other people. You will become a buyer instead of a seller. Think of this as an after-Christmas sale. Are you in the market for some markets? Please know that we are reviewing your portfolios regularly to see if there are portfolio rebalancing opportunities. This is living in the light while still in the dark.

Tax Returns

Jason Akridge, Advisor

As a reminder, you will need to provide the following items for your Brand AMG taxable accounts to your 2007 tax return preparer:

1099 Information - This will come from Fidelity in a report titled "2007 Tax Reporting Statement". It should be mailed no later than 1/31/08.

Realized Gains/Losses from Sales of Investments - This will come from our office, and will be a separate package that is included with the 12/31/07 Quarterly Reports. It should be mailed no later than 2/15/08.

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Newest Member of Brand

Ryan Green, Operations

For those of you I have not met in person or spoken with by phone, my name is Ryan Green and I am the newest member of the Brand AMG team. This is my first career position and I began here in November of 2007. I am currently working in Operations, so if you need to open a new account, make a contribution or request a withdrawal, transfer assets from an outside account to our management, etc., I would be happy to assist you.

Since I am so new I thought I'd share with you my background and what led me to Brand AMG. I was born in the St. Louis area, attended Wentzville High School and have lived in Missouri all of my life. In 1999, I began my business career as an undergraduate student at the University of Missouri-Columbia, majoring in Personal Finance. The coursework taught me to focus on meeting the needs of clients, and instructed me on economic models and financial tools. After completing the undergraduate program I entered the Crosby Graduate program at Mizzou where I earned an MBA in Finance. Each day at Brand AMG helps me appreciate and apply the education I received – from a general knowledge of investments to a greater understanding of how the proper investment strategy can positively affect someone's life.

On a personal note, I recently moved to Chesterfield from Brentwood to avoid the Highway 40 project, and have become spoiled by the four minute commute. I enjoy Cardinal baseball, Tiger football, playing hockey, snowboarding, racquetball, and reading.

I look forward to many years of learning, growing and building meaningful personal relationships, and to joining you in your journey towards achieving your financial goals.