

# HEADWATER INVESTMENT CONSULTING, INC.

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## Review & Outlook

December 2008

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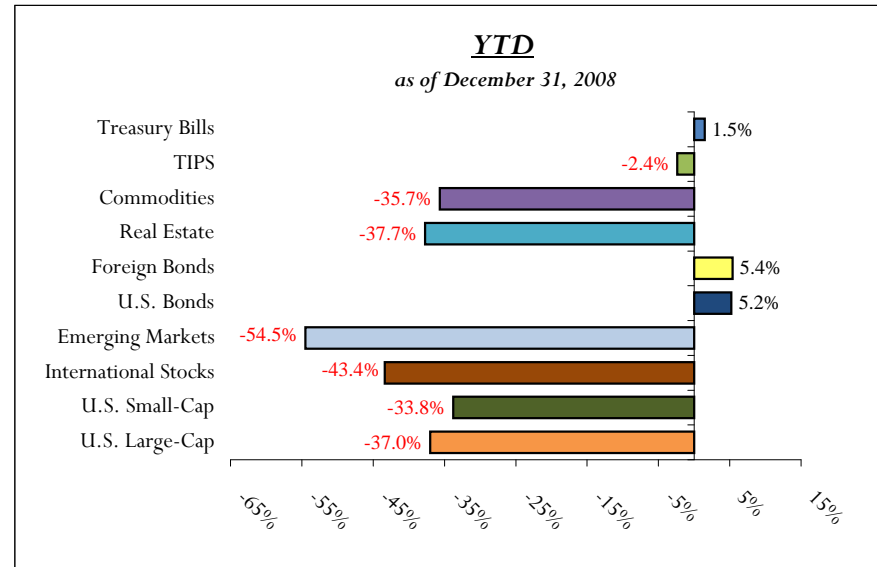
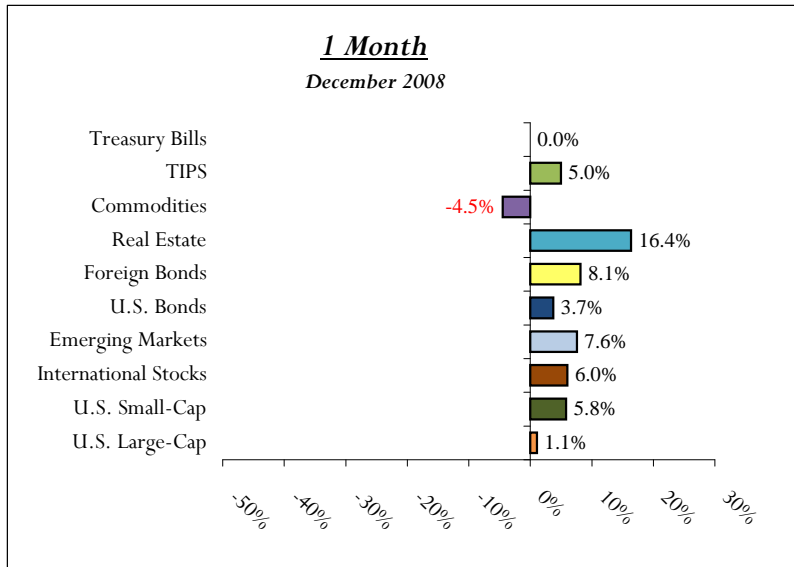
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# ASSET CLASS PERFORMANCE



**Index Performance as of: 12/31/2008**

	<b><u>1 Mo</u></b>	<b><u>3 Mo</u></b>	<b><u>YTD</u></b>	<b><u>1-yr</u></b>	<b><u>3-yr</u></b>	<b><u>5-yr</u></b>	<b><u>10-yr</u></b>
<i>U.S. Large-Cap</i>	1.1%	-21.9%	-37.0%	-37.0%	-8.4%	-2.2%	-1.4%
<i>U.S. Small-Cap</i>	5.8%	-26.1%	-33.8%	-33.8%	-8.3%	-0.9%	3.0%
<i>International Stocks</i>	6.0%	-43.4%	-43.4%	-43.4%	-7.4%	1.7%	0.8%
<i>Emerging Markets</i>	7.6%	-27.9%	-54.5%	-54.5%	-7.1%	5.1%	6.6%
<i>U.S. Bonds</i>	3.7%	4.6%	5.2%	5.2%	5.5%	4.7%	5.6%
<i>Foreign Bonds</i>	8.1%	8.8%	5.4%	5.4%	9.5%	6.0%	5.6%
<i>Real Estate</i>	16.4%	-38.8%	-37.7%	-37.7%	-10.8%	0.9%	7.4%
<i>Commodities</i>	-4.5%	-30.0%	-35.7%	-35.7%	-8.6%	0.2%	7.6%
<i>TIPS</i>	5.0%	-3.5%	-2.4%	-2.4%	3.1%	4.1%	6.8%
<i>Treasury Bills</i>	0.0%	0.1%	1.5%	1.5%	3.8%	3.2%	3.4%

## CAPITAL MARKET HISTORY: OVER 10 YEARS OF RETURNS BY ASSET CLASS

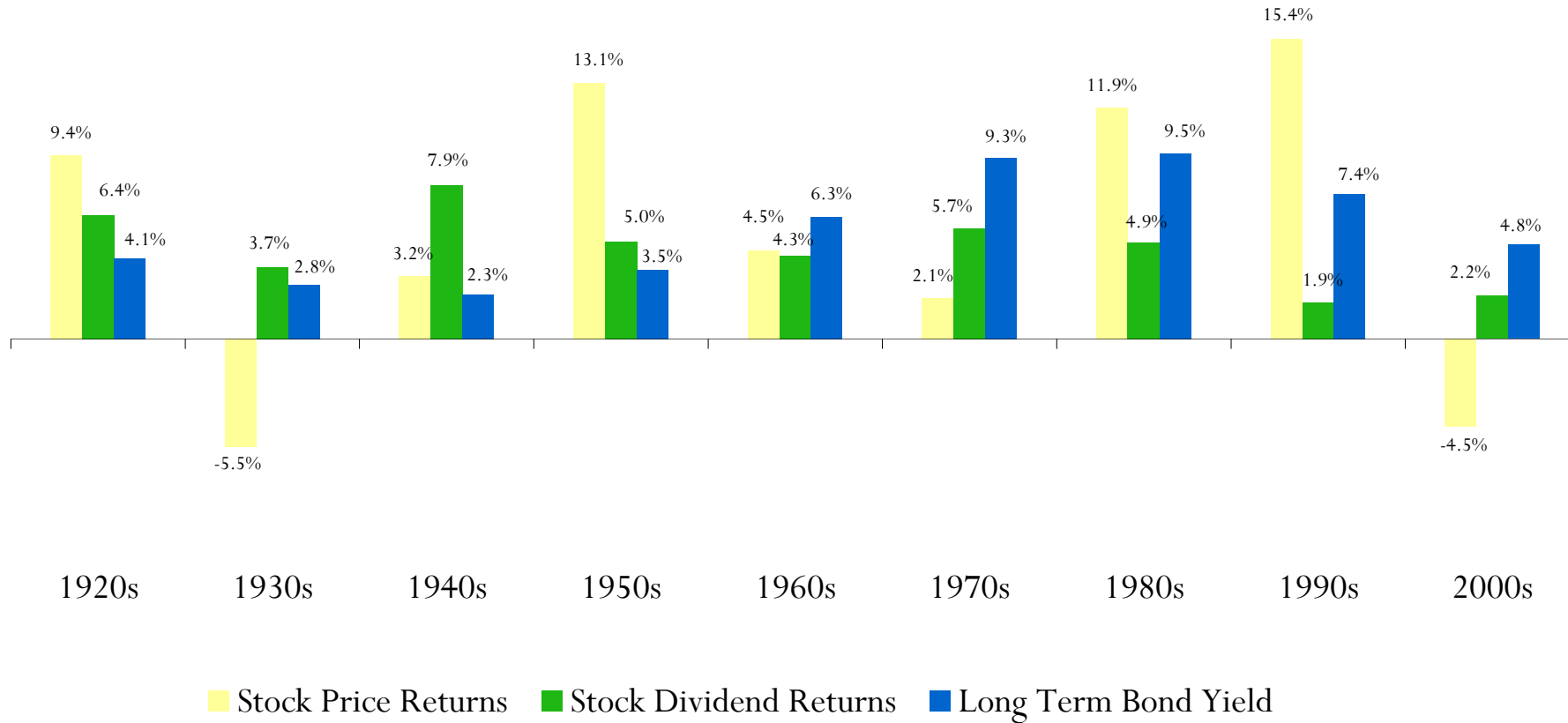
Year	Inflation	Money Market	Large Co. Stocks	Small Co. Stocks	Int'l Stocks	Emerging Markets	US Bond Market	Foreign Bonds	TIPS	REIT	Home Prices <sup>1</sup>	Commodities
12/31/2008	0.7	1.5	-37.0	-33.8	-43.4	-54.5	5.2	5.4	-2.4	-37.7	-16.4	-35.7
2007	4.1	4.8	5.5	-1.6	11.2	36.5	7.0	10.1	11.6	-17.6	-9.1	16.2
2006	2.6	5.1	15.8	18.4	26.3	29.2	4.3	6.5	0.4	36.0	0.7	2.1
2005	3.4	3.3	4.9	4.6	13.5	30.3	2.4	-5.8	2.8	13.8	15.5	21.4
2004	3.3	1.4	10.9	18.3	20.3	22.5	4.3	9.8	8.5	33.2	16.2	9.2
2003	2.0	1.1	28.7	47.3	38.6	51.6	4.1	14.4	8.4	36.2	11.4	24.0
2002	2.5	1.7	-22.1	-20.5	-15.9	-8.0	10.3	18.1	16.6	3.6	12.2	26.0
2001	1.6	3.7	-11.9	2.5	-21.4	-4.7	8.4	0.2	7.9	12.4	7.9	-19.5
2000	3.4	6.3	-9.1	-3.0	-14.2	-31.9	11.6	-2.6	13.2	31.0	14.1	31.8
1999	2.7	4.9	21.0	21.3	27.0	64.1	-0.8	-5.1	2.4	-2.6	10.8	24.4
1998	1.6	5.0	28.6	-2.6	19.9	-27.7	8.7	17.8	4.0	-17.0	9.1	-27.0
1997	1.7	5.3	33.4	22.4	1.8	-14.0	9.7	-4.3	- - -	19.7	5.4	-3.4
1996	3.4	5.3	23.0	16.5	6.1	-3.9	3.6	4.1	- - -	37.0	1.9	23.2
1995	2.5	5.8	37.6	28.5	11.2	-6.9	18.5	19.6	- - -	12.2	-0.4	15.2
Average	2.7	4.1	12.8	11.7	9.6	10.5	7.1	6.4	7.6	15.2	7.4	11.0
Risk	0.8	1.7	18.6	17.4	18.1	30.4	4.9	9.3	5.2	19.4	7.4	18.2

<sup>1</sup> Home Prices through November 2008

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## RETURNS BY DECADE SINCE 1920S

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## HOW DID WE GET SO CLOSE TO THE "BRINK?"

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### Chronology of recent events of the financial crisis:

- September 7, 2008** – The Treasury Department seizes Fannie Mae and Freddie Mac.
- September 14, 2008** – “Black Sunday”: Lehman Brothers fails; Merrill Lynch agrees to be acquired by Bank of America.
- September 16, 2008** – Forced takeover of AIG with \$85 billion loan; Reserve Primary Fund breaks \$1.
- September 17, 2008** – \$145 billion redeemed from money market funds; T-bill rate goes to zero.
- September 19, 2008** – Treasury backs money market funds with \$50 billion – asks Congress for \$700 billion.
- September 21, 2008** – With Fed approval, Morgan Stanley and Goldman Sachs convert from investment banks to traditional bank holding companies.
- October 3, 2008** – Congress passes revised financial rescue package, the Emergency Economic Stabilization Act of 2008 - The Federal Deposit Insurance Corp. hikes deposit insurance limits on bank account to \$250,000.
- October 7, 2008** – Fed announces will support commercial paper market with direct purchases.
- October 13, 2008** – The federal government plans to inject \$250 billion into U.S. financial institutions, and guarantees some bank debt for three years.
- November 23, 2008** – Treasury announced an additional injection of \$20 billion of fresh capital into Citigroup. Also, government will assume responsibility for \$306 billion in troubled assets.
- November 26, 2008** – The federal government pledged to pump another \$800 billion into ailing credit markets. The Fed plans to purchase up to \$600 billion of debt issued or backed by Fannie Mae, Freddie Mac, Ginnie Mae and Federal Home Loan Banks. In addition, with support from the U.S. Treasury, the Fed will provide up to \$200 billion in financing to investors buying securities tied to student loans, car loans, credit-card debt and small-business loans.

## FINANACIAL COMPARISON

Largest U.S. Commercial Banks			Largest U.S. Investment Banks		
Institution Name	Total Deposits (Billions USD)	% Capital / Assets	Institution	Total Deposits (Billions USD)	% Capital / Assets
Citibank	\$2,188	5%	Goldman Sachs	\$1,120	4%
Bank of America	\$1,716	9%	Morgan Stanley	\$1,045	3%
JP Morgan Chase Bank	\$1,562	8%	Merrill Lynch	\$1,020	3%
Wachovia Bank	\$783	10%	Lehman Brothers	\$691	3%
Wells Fargo Bank	\$575	8%	Bear Stearns	\$394	3%
Washington Mutual Bank	\$328	7%			
U.S. Bank	\$238	9%			
SunTrust Bank	\$180	10%			
<b>Average</b>	<b>\$946</b>	<b>8%</b>	<b>Average</b>	<b>\$854</b>	<b>3%</b>

as of December 31, 2007

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## COMPARISON TO GREAT DEPRESSION

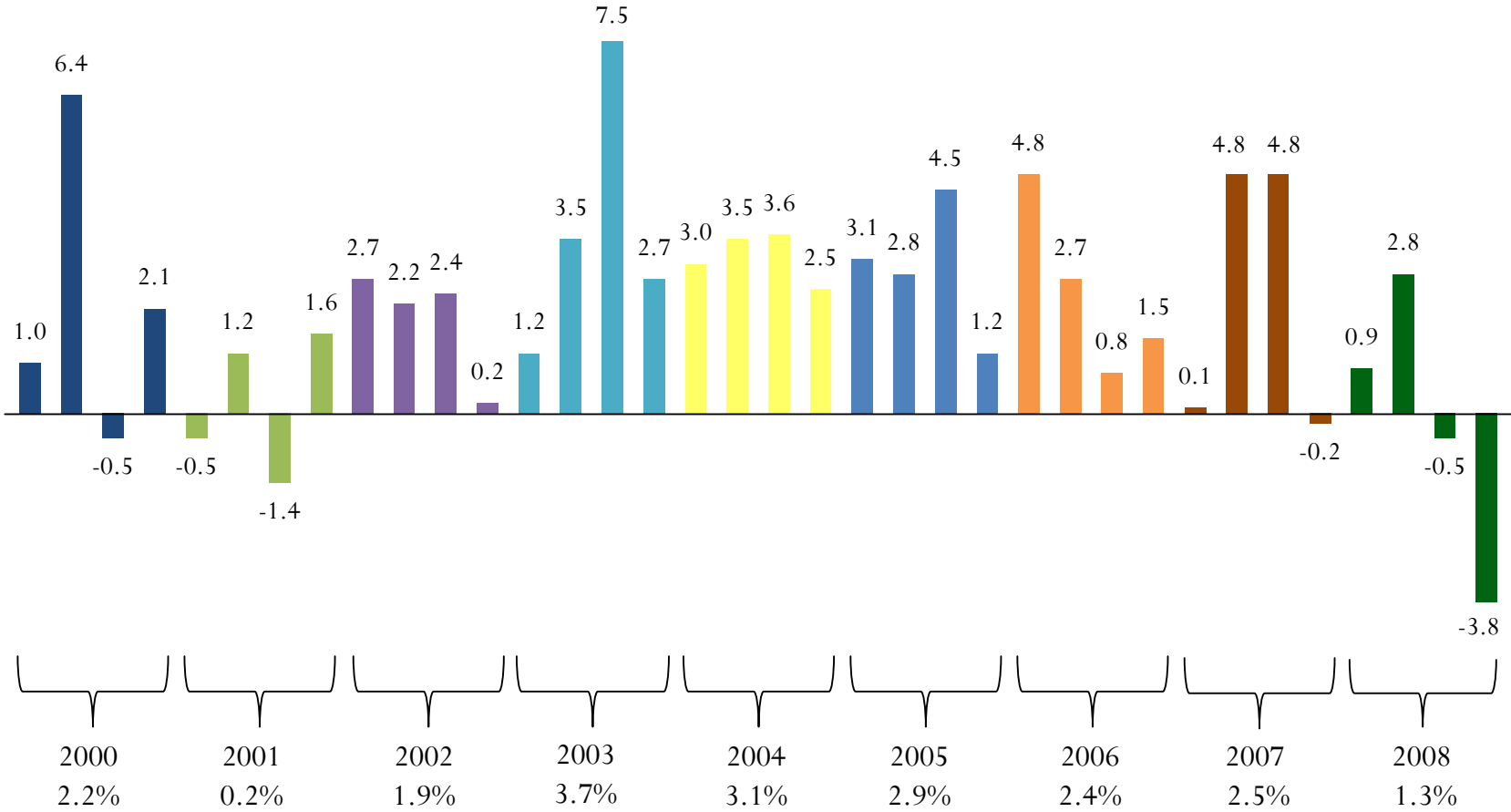
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	1929-1934	2008
Economic Growth	-25%	-3.8% (4 <sup>th</sup> quarter)
Unemployment	24%	7.6%
Home Foreclosures <sup>1</sup>	44%	10%
Bank Failures	9,000	26
House Price Declines	30%	25% <sup>2</sup>

<sup>1</sup> Foreclosures based on urban, owner-occupied homes on which there was a first mortgage were in default.

<sup>2</sup> From August 2006 – November 2008

GROSS DOMESTIC PRODUCT: QUARTERLY AND ANNUAL PERCENTAGE CHANGES (2000 - 2008)



Gross Domestic Product (GDP) is the output of goods and services produced in the United States. Quarterly estimates are expressed as seasonally adjusted annual rates.

# BROAD STOCK / BOND PORTFOLIOS: Historical Risk/Return (1926 - 2007)

*Conservative Investments*

*Aggressive Investments*

## Income Portfolio

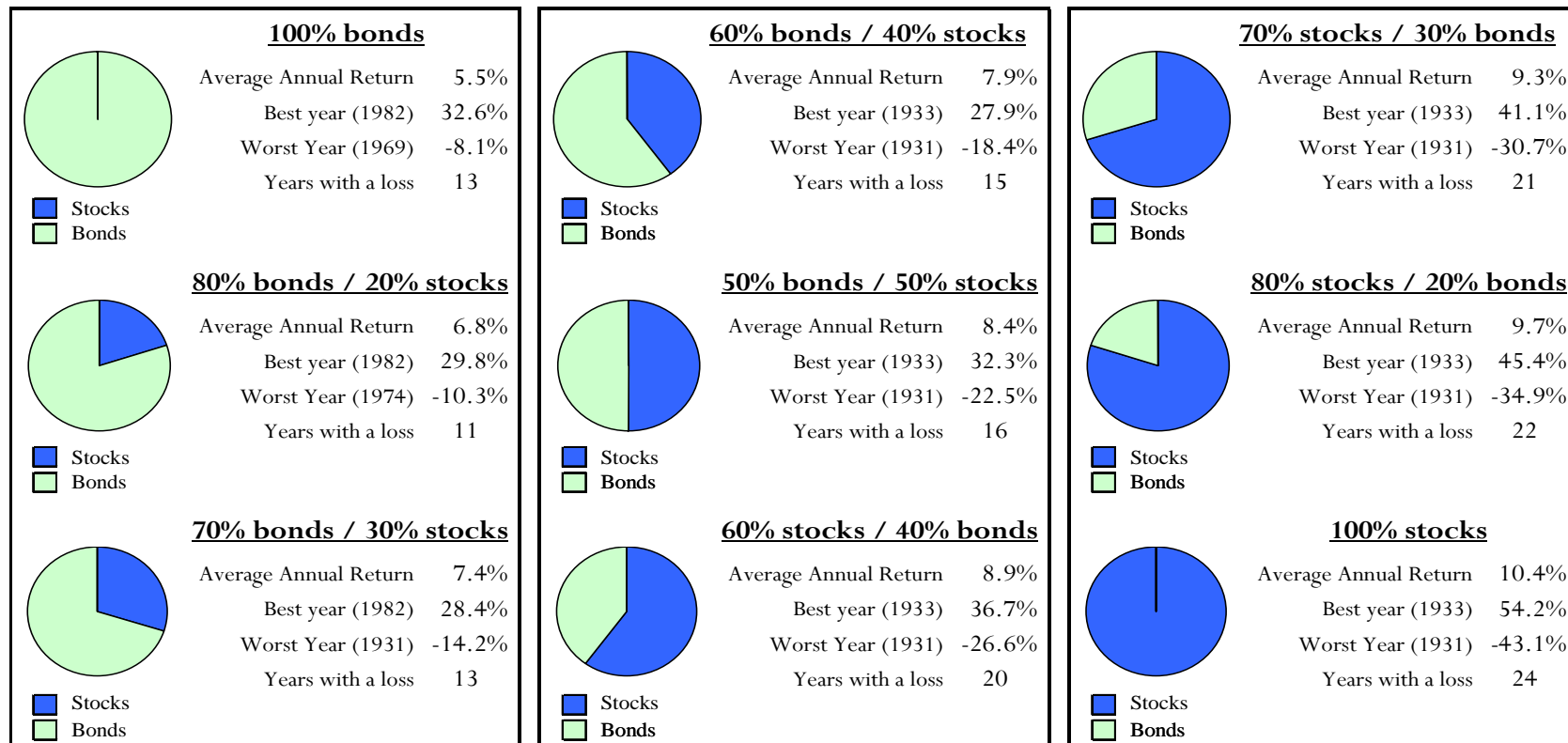
*For investors who seek current income while reducing potential volatility.*

## Balanced Portfolio

*For investors who seek to reduce potential volatility and accept moderate growth of principal.*

## Growth Portfolio

*For investors who seek to maximize the long term potential for growth of principal and accept higher volatility.*



SOURCE: [www.personal.vanguard.com/us/planningeducation](http://www.personal.vanguard.com/us/planningeducation), Vanguard® Model Portfolio Allocations

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## HISTORICAL U.S. STOCK BEAR MARKETS: 1926 - 2008

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Peak	Trough	Duration (months)	Bear Market Magnitude	1-Yr. Return After Trough
9/3/1929	7/8/1932	34	-86%	124%
3/10/1937	4/28/1942	61	-60%	59%
5/29/1946	6/13/1949	37	-30%	42%
8/2/1956	10/22/1957	14	-22%	31%
12/11/1961	6/26/1962	6	-28%	33%
2/9/1966	10/7/1966	8	-22%	33%
11/29/1968	5/26/1970	18	-36%	44%
1/11/1973	10/3/1974	21	-48%	38%
11/28/1980	8/12/1982	21	-27%	58%
8/25/1987	12/4/1987	4	-34%	23%
7/16/1990	10/11/1990	3	-20%	29%
3/24/2000	10/9/2002	31	-49%	34%
10/9/2007	10/10/2008	12	-43%	?
<b>Average (excluding 2007-2008) :</b>		<b>22</b>	<b>-39%</b>	<b>46%</b>

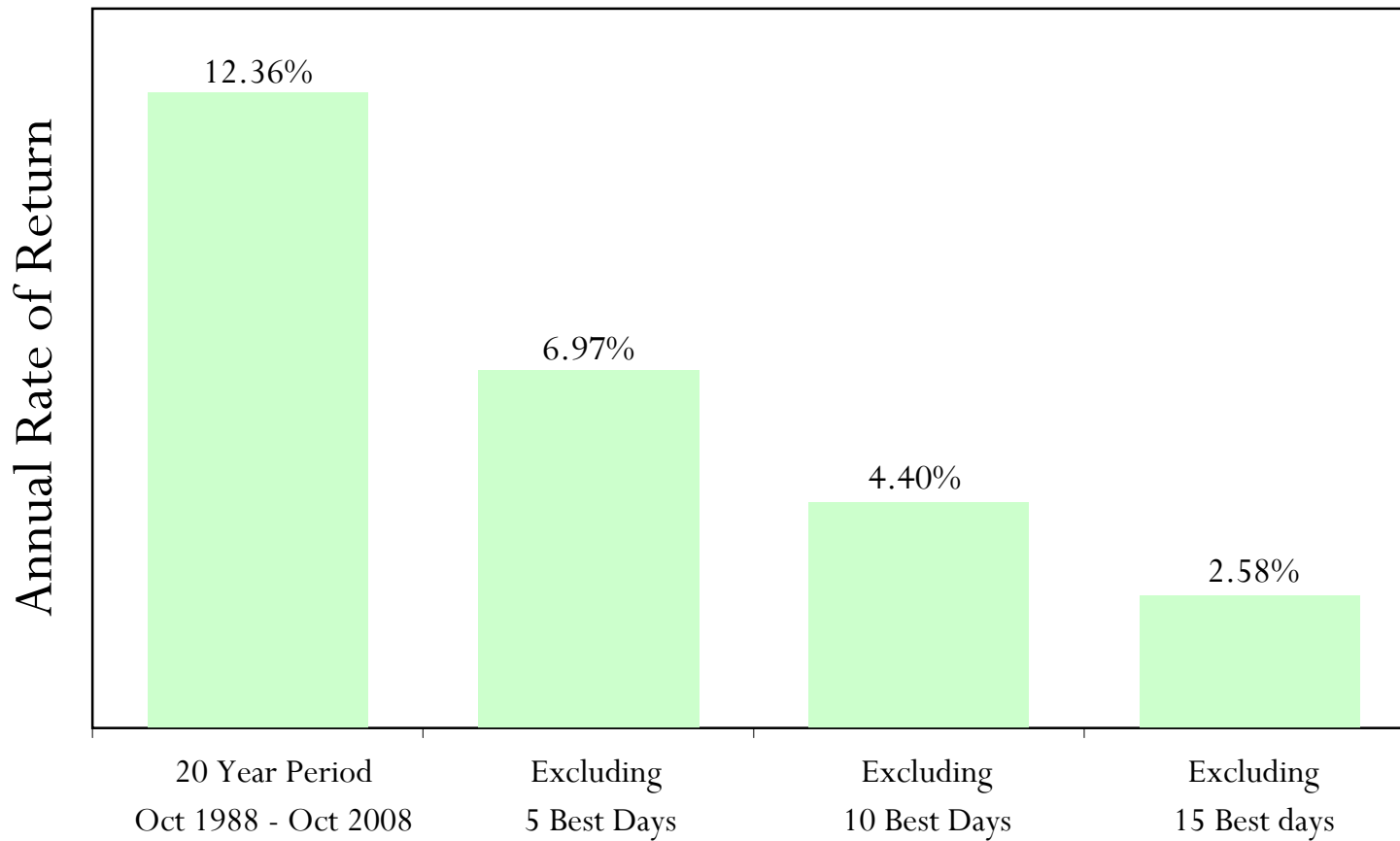
Source: Chart courtesy of Fidelity Investments. Data collected from ISI, Bloomberg, national Bureau of Economic research, HaverAnalytics, FMRCo. (MARE) as of 10/20/2008. Recessions are defined by the National Bureau of Economic Research.

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## THE RISK OF MARKET TIMING

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Cumulative S&P 500 Index as of October 31, 2008  
(Price Returns, excluding Dividends)

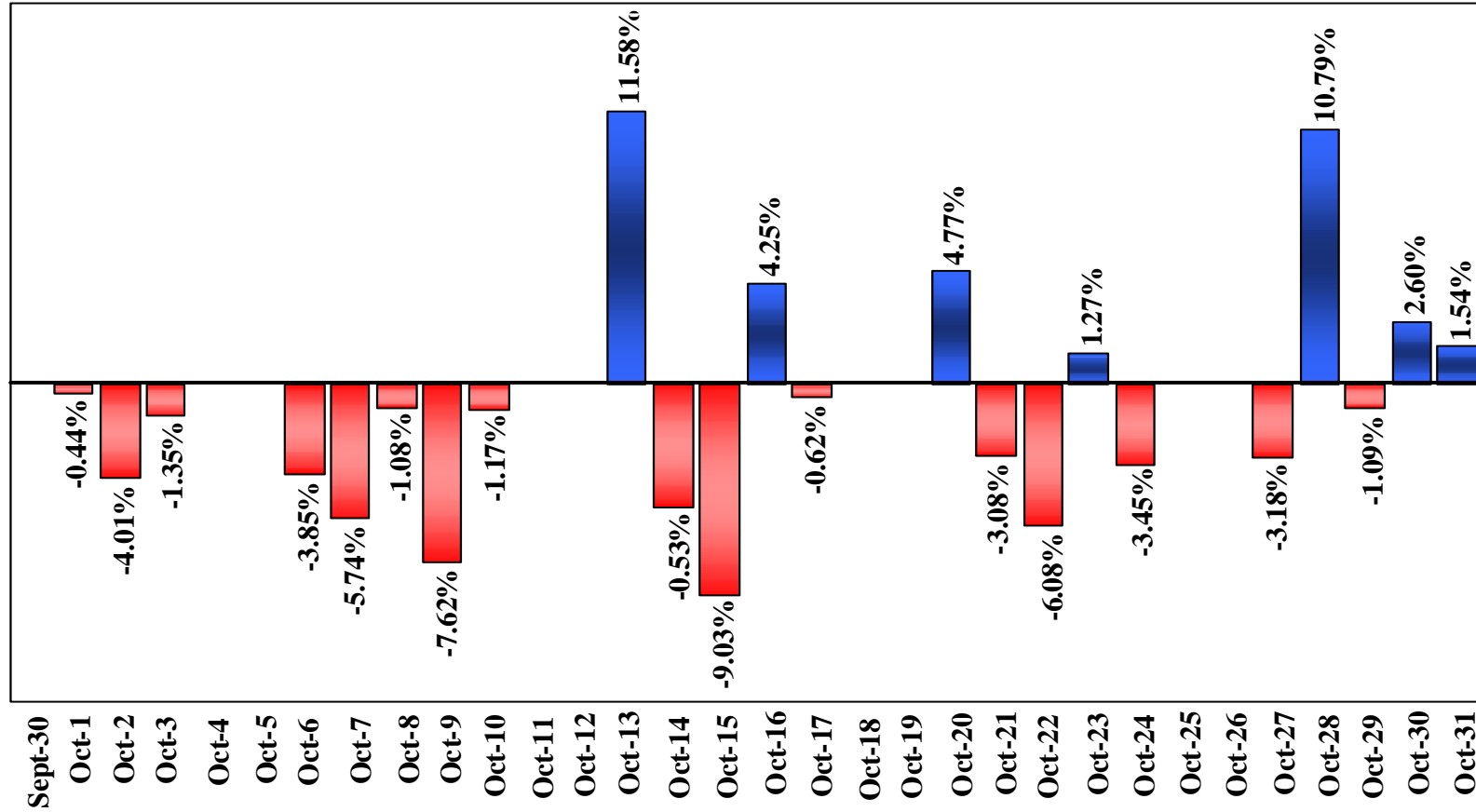


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# MARKET VOLATILITY

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## S&P 500 Index Daily Returns in October 2008



## DISCLOSURES & DEFINITIONS

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\* Statistical data is gathered from Morningstar Principia and/or the fund manager's web site. All information contained in this document is compiled from sources believed to be reliable and current.

\* Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of a portfolio.

\* As with any investment, the holder of each fund is subject to various risk factors. These factors can be explained on a fund by fund basis.

\* The performance data shown represents past performance, which is not a guarantee of future results. Current performance may be lower or higher than the data cited.

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- Large-Cap Stocks -** A U.S. large company stock index measured by the S&P 500. It is made up of a group of 500 of the most widely traded stocks in the U.S., as chosen by Standard & Poor's.
- Small-Cap Stocks-** Measured by the Russell 2000 which is the dominant small-cap index in the U.S. The index is comprised of the smallest 2000 stocks in the Russell 3000 Market Index.
- International Stocks-** An international stock index measured by the MSCI EAFE. It is comprised of stocks from developed markets in Europe, Australia, Asia, and the Far East.
- Emerging Markets -** An international stock index that tracks non-developed markets throughout the world. It is measured by the MSCI Emerging Markets Index.
- U.S. Bonds -** A measure of the Total U.S. Bond Market by the Lehman Aggregate Bond Index. It takes into account corporate, government, mortgage and asset backed securities.
- Foreign Bonds -** Measured by the Citi World Gov't Bond Index. The fund is comprised of primarily investment grade bonds from around the world.
- Real Estate -** Measured by the FTSE NAREIT Index which is a composite of Real Estate Investment Trusts traded on U.S. exchanges.
- Commodities -** Performance is represented by the PIMCO Commodity Real Return Strategy Fund, which uses the DJ AIG Commodity Index as a benchmark.
- TIPS -** Performance is represented by the Lehman Brothers US Treasury Inflation Protected Securities Index. TIPS are government bonds that have adjustable coupon payments based on the rate of inflation (as measured by the CPI).
- Treasury Bills -** Short-term government issued securities with maturities less than 90 days. Because they are government issued, T-Bills are free from default risk.