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the BENEDICT *REPORT*

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THE VERY UGLY INVESTMENT STATEMENT!

If you have money invested anywhere other than a bank account or an old mattress, it is very likely that your value declined dramatically during October. My suggestion is to not look at any brokerage statement your may receive. Actually, I say that almost in jest -- because life has taught me that most of you HAVE to look…you just can't stand not to, but don't say I didn't warn you!

During the last few weeks, it wasn't just the U.S. stock market that has "tanked." It is most of the stock markets around the world, it is the price of wheat and corn and the price of copper and steel. Asset prices literally fell off the cliff during the last eight weeks.

What caused the great October sell-off?

Three knock-out punches during the crisis in which the credit markets had frozen up

- Hedge fund leverage and redemptions - there were billions of dollars in hedge funds that had borrowed hundreds of billions of more dollars to speculate on asset prices. The lenders called their loans, the hedge funds could not borrow new money and investors were demanding redemption of their shares all at the time the assets in which they were invested were plummeting in value. In attempts to avoid bankruptcy, the hedge funds had to sell huge positions and this selling then morphed into massive panic selling by ordinary investors.
- Recession - all the talk about recession or no recession seemed to end in October. Suddenly, most of the gurus who were on the fence started predicting a terrible recession.
- Election -

What does the October sell-off mean for the future? I guess time will tell.

THE CYCLES

I'm writing this before the results of the Presidential election are in; however, I don't think those results will have much impact on what I'm about to say as I don't believe the President has much influence over economic cycles.

Frequently, when I use the word "cycle," the listener's eyes glaze over and I realize I'm talking about something that the listener either has no interest in or has no understanding of or merely thinks the mere discussion of such a topic is meaningless. But, let's stay focused on this for a couple of paragraphs because I believe this is very important for your mental and, maybe, financial health over the next twelve months.

Our economy has its cycles…they are a natural event and very important for our future economic health. During the UP part of the cycle we are all happy…we have plenty of money to spend; we have plenty of job choices and, because of all of this, some of us tend to get a little economically fat around the edges; others actually get economically obese. Individuals have a few too many toys and businesses have a few too many locations/product lines/employees.

During the DOWN part of the cycle, we have to make tough choices. Do we sell the cabin that is putting pressure on our monthly spending budget, do we forgo the fancy vacation or do we tell Junior that the out-of-state college is not in the cards? Business owners must close locations or lay off some workers or do whatever else necessary to survive.

This is no different than stepping on the scale and saying to yourself, "whoops, looks like I've been overdoing the gravy and under doing the brussell sprouts." It is an indicator that you need to make changes or harm your long-term health. You don't say it this way, but you are actually re-allocating your energies or resources.

That's exactly what the down portion of an economic cycle does…forces businesses and families to re- allocate their resources to what is important and profitable. If a college education is important, but the resources to pay for an out-of-state school are needed for other household expenditures, then the tough decision must be made...it's an in-state school for you, son.

Businesses are forced to do the same thing. The Vice President likes to have three administrative assistants, but some of those resources are needed to develop a new product line, thus, maybe two of the assistants must go. This is re-allocating resources to their highest and best use. This is exactly what keeps our economy and our businesses on top.

It is when we try to avoid the DOWN part of the economic cycle that we cause problems. The family that says "I know how much you want to go out of state to be with your friends, so we will just pile up the debt and surrender our retirement income to make you happy," that causes big time problems!

A client was in the other day saying, "I hated to have to lay people off when I was a manager, but what was even worse was when they told me had I to lay off the energetic, newer worker and keep the "piece of deadwood" in the back corner because he had seniority." Now, that is an outside force hindering with the efficient allocation of resources and a receipt for lackluster performance if not future failure.

Think of resource allocation in regards to a sports team. The team is losing (DOWN cycle), which forces the management to make changes. Which players do we keep, which do we let go? Should we change our overall strategy or get a new manager? The teams that don't make these decisions continue to lose.

The DOWN leg of the economic cycle forces us to re-allocate our resources to their highest and best use. Does it also cause pain for some of the participants? Yes, but not doing so is to continue enjoying too much gravy...it only makes the future worse.

THE STOCK MARKET

My account is back to 2001 values...will it ever recover? How long will it take?

On Page 3 is a chart of the price performance of the Dow Jones Industrial Average[1] (Dow) since 1950. Let's see how the financial markets also have CYCLES.

Let's focus on the price performance of the Dow from 1966 through 1976. That era has some resemblance to the current environment. Stocks peaked in 1966 after a long UP market cycle. Share prices rallied again leading most of us to think the UP market was still in tact. That is, until November 1968 when the market dropped nastily. I remember this particular drop well because I was teaching an undergraduate stock market class at the time. I was about the same age as the students and about as experienced, so when they asked me what was happening, instead of talking about the recent tax increases and slowing economy, I probably said "I don't know."

We then struggled along until the very ugly decline in 1973-74. At the same time, the economy was in terrible shape. Nixon was in the middle of his problems, the war in Vietnam was ending in a very ragged way, wage and price controls had been put in place, the dollar was effectively de-valued, unemployment was rampant, jobs were almost nonexistent, a major credit crunch was brewing and, of course, the Arabs had cut off our oil.

The DOWN market cycle pushed almost all stocks down, but then, as the cycle started turning, money (resources) started flowing from the weaker companies to the best run companies and the share prices of those companies started climbing.

I don't know what the future will bring, but the Dow, in September 1974, was down to 1962 prices and by early 1976 it had fully recovered during a really rough consumer recession. Don't underestimate the DOWNS and UPS of market cycles. Review the chart for other down cycles and see how long the market took to recover.

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When is the best time to get rich in stocks?

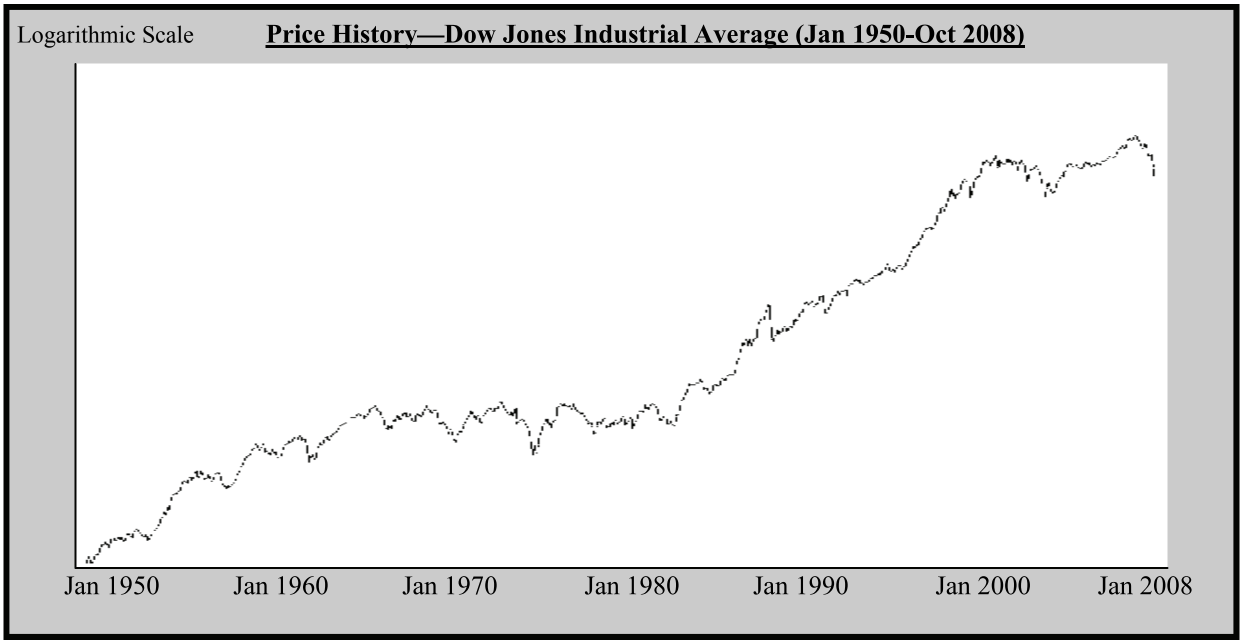
Is it AFTER a big drop?

Warren Buffett, in *Forbes*, September 1974, "I feel like an oversexed man with a harem… Now is the time to invest and get rich." (In September 1974, the Dow was at about 600 and in February1976 it was1,000.) Mr. Buffett is buying again; you decide what that means.

Can the markets go lower? Of course they can and may. After the horrifying market drop in October of 1987, the market rallied signifi-cantly and then dropped like a rock again in December. A recurring drop like that takes the wind out of one's sails as they say, so keep your hopes up but your expectations realistic.

This may be a once-in-a-lifetime opportunity for many people. Without times of great turmoil, it's hard to make big money in the stock market. Global money markets total are awash with money. The dollar has become stronger again (even though it is likely to go through periods of weakness). We are probably near the bottom of a global interest rate cycle. The world is now having money pumped at it from all sides and real short-term interest rates are almost zero. Be careful making a long-term bet against this market...remember what is supposed to happen after a big DOWN cycle.

Chart from MSM Money



[1]The Dow Jones Industrial Average is an unmanaged index that cannot be invested into directly.

THE ECONOMY/RECESSION/ DEPRESSION

I asked three people (a very informal survey!) what percent of mortgages in this country were in foreclosure. The responses: "Almost half, twenty-five percent, a lot and I feel so terrible for those people who are losing their homes."

These people are watching far too much television! *RealtyTrac* reported that in September, 1 in every 475 homes was going through the foreclosure process -- a twelve percent drop from August.

I think we all realize that the foreclosure problem is far greater than this in certain communities and neighborhoods and it is likely to get worse if the banks don't take corrective action; however, let's keep things in perspective.

The media is full of Depression talk, but I have to attribute most of that to the emotionalism of the situation and election year politics. Most economic historians say a cyclical recession turned into the Depression because of a 25% reduction in the supply of money by our early Federal Reserve. In the last few months, we have increased our money supply by about 25%, probably because our Federal Reserve Chairman was a student of the Depression and the impact of the money supply on the economy during that time. [Van Eck, Money & the Economy, October 31, 2008] A recession is far less severe, but still not pretty. A recession is like an illness that doesn't kill you, but makes you feel really bad for months. Since we have avoided any really bad recessions for many years, let's take a statistical look at our recessions since the end of World War II. [On Page 4]

You will notice the average recession lasted about ten months. And, if you take these dates and compare them to the chart of the Dow, you will generally see that the stock market has anticipated each recession with a nasty down market. The question today is how much of a recession is already priced into this stock market? Do remember that the stock market is about looking at the future, while the media focuses on the past.

[continued on Page 4]

Recessions since the end of WWII

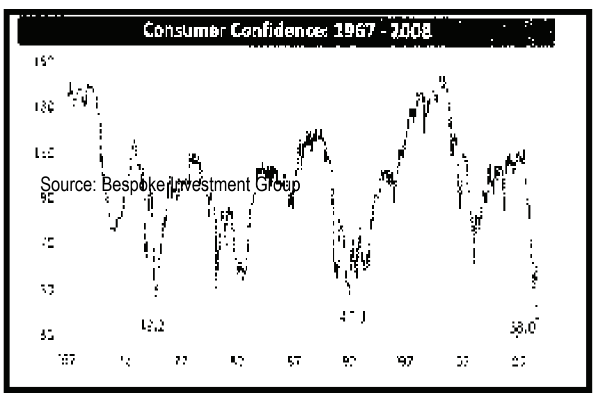
Peak	Trough	# of months
November 1948	October 1949	11
July 1953	May 1954	10
August 1957	April 1958	8
April 1960	February 1961	10
December 1969	November 1970	11
November 1973	March 1975	16
January 1980	July 1980	6
July 1981	November 1982	16
July 1990	March 1991	8
March 2001	November 2001	8

From: Nick Murray Interactive, November 2008

Let's take a look at part of President Carter's rather famous July 15, 1979 television speech.

> *"The threat is nearly invisible in ordinary ways. It is a crisis of confidence. It is a crisis that strikes at the very heart and soul and spirit of our national will. We can see this crisis in the growing doubt about the meaning of our own lives and in the loss of a unity of purpose for our Nation. The erosion of our confidence in the future is threatening to destroy the social and the political fabric of America. It is the idea which founded our Nation and has guided our development as a people. Confidence has defined our course and has served as a link between generations. We've always believed in something called progress. We've always had a faith that the days of our children would be better than our own.*
>
> *Our people are losing that faith, not only in government itself but in the ability as citizens to serve as the ultimate rulers and shapers of our democracy. As a people we know our past and we are proud of it. But, just as we are losing our confidence in the future, we are also beginning to close the door on our past. In a nation that was proud of hard work, strong families, close-knit communities, and our faith in God, too many of us now tend to worship self-indulgence and consumption. Human identity is no longer defined by what one does, but by what one owns. But we've discovered that owning things and consuming things does not satisfy our longing for meaning. We've learned that piling up material goods cannot fill the emptiness of lives which have no confidence or purpose.*
>
> *The symptoms of this crisis of the American spirit are all around us. For the first time in the history of our country a majority of our people believe that the next five years will be worse than the past five years. The productivity of American workers is actually dropping, and the willingness of Americans to save for the future has fallen below that of all other people in the Western world.*

THE THINKING



Source: Bespoke Investment Group

Here's a chart of consumer confidence. We included a similar chart in the last newsletter, but thought it was worth another look to see how consumer confidence also has its cycles.

Someone told me the other day, "For the first time in my life, people have lost faith in the future." I assume he heard that on a television interview or something and it's obvious he didn't know much about history.

Swings in confidence like this are part of the cycles. Typically, the bust (DOWN) period rivals the preceding boom (UP) in intensity. This boom was built on debt and now we are experiencing the melting of the debt bubble. Because of this I don't think everyone has lost faith in the future…most impacted are those in debt and those addicted to the noise of the media - - and the youth that have not yet learned to reason for themselves.

And, this is leading to a lot of "I'm so poor" talk. You know what the talk sounds like. *"I say I* **need** *when what I'm really saying is I* **want**. *I'm underpaid means I spend more than I make. We can't afford it means we choose to spend our money on other things."* How many parents do you know who have no college savings, no emergency savings and no life insurance - - but do have boats, sports cars, iPhones, etc.

Some of these people are full of self-pity because their financial life has been out of control. Others are aware of their problems and working hard on solutions and we are proud of them.

Tangible vs. spiritual, consumption vs. prudence. What can I say? How can I feel sorry for someone who came out of a government housing project and bought a no-money-down home with twice as many bedrooms and bathrooms as the home in which we live? Come on. Many people have been legitimately hurt by the mortgage mess and others are suffering real pain due to the job market, but the causes of a lot of this whining are well deserved.

WHAT ABOUT MIDDLE AMERICANS?

It seemed as though both Presidential candidates were promising to make things better for "middle Americans". The spendable income of "middle Americans," in many cases, is no higher than it was ten years ago, and income growth, or lack of it, has a lot to do with the attitudes of people, probably exacerbated the last couple of years because they could no longer supplement their income with additional borrowing. [Census Bureau: Median household income in 2007 was $50,200 compared to $50,600 in 2000.] All Americans, including middle Americans need good jobs, not hand-outs, not phantom tax cuts, not artificially created make-work projects. President's don't create good jobs, a vibrant competitive economy does.

What seems to be overlooked, however, is that the education and skills of many "middle Americans" do not seem to have increased and, in many cases, seem to have declined. We are seeing people show up for work with no more education or skills than their grandfather had forty years ago…and, in some cases, with little of grandfather's work ethic. Yes, previously we went through a long cycle in which you could just show up and get a big raise each year, especially in the old-line manufacturing sector. Unfortunately, that cycle probably helped chase many of our lower-end manufacturing jobs overseas. That cycle ended a long time ago…tell your children and grandchildren this… apparently our school system is not getting the word out.

Here's how to handle the current FINANCIAL CRISIS.

- It does no good to agonize over your investment account losses. Most likely they will turn out to be temporary.
- Get a handle on your financial life, maybe a formal plan, but more likely a simple plan. How much are you spending? How much of that is fixed and how much is variable?
- Live within your means. If you aren't there is no way you will find financial peace.
- When you work, give it your all. And, when you aren't working, kick back and enjoy the roses.
- If you are out of work, keep looking and spend the time adding to your skills. This is the twenty-first century; we all need to be acquiring skills for our next career.

So, there aren't any remaining serious economic problems?

Yea, right! No credit card problems, no seriously increasing unemployment on the horizon, no budget deficits to worry about, no consumer spending crash and on and on. BUT, when times appear so very good, the markets are at all time highs. And, that's when the risk is very high…get it? When times can't get much better, they don't.

BUT, IT'S DIFFERENT THIS TIME!

Yes, but we feel it's also the same. You make the decision for yourself, but we are taking the approach that life, as we know it, will not end because Fannie Mae had stinkin' leadership, because banks and brokerage firms acted very irresponsibility, because the government has thrown itself into what should be private companies and because people, many of whom had no business buying a home, are moving back to rental units.

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WARNING! DO NOT OPEN YOUR OCTOBER STATEMENT!