



Facing Down the Bear

Dear Clients and Friends:

July 15, 2008

According to The Wall Street Journal, the U.S. stock market has officially entered bear market territory. Prices are down over 20% from their peak in early October, primarily because of the credit crunch and rising energy prices. No one likes to endure falling prices; however, it is from tumultuous times that opportunities arise. When prices decrease, future returns increase.

We take time in this letter to provide our reasons for not being overly worried. You will find a review of our techniques for helping clients get through market downturns while minimizing long-term damage. First, here is how the major indexes performed through June 30.

	<u>2Q</u>	<u>YTD</u>
Dow Jones Industrial Average	- 6.9	-13.4
S&P 500 Index	- 2.7	-11.9
NASDAQ	+0.6	-13.6
Lehman Brothers Aggregate Bond	- 1.0	+ 1.1

Growth stocks outperformed Value stocks, which continued the leadership shift we noted in the fourth quarter of 2007. Investors usually favor stocks that can sustain revenue growth during an economic slowdown. Surprisingly, Mid-cap and Small-cap stocks outperformed Large-cap stocks. Foreign stocks failed to significantly outperform U.S. stocks.

Protecting Your Nest Egg

Someone once said, "There are times to grow capital, and times to protect it." We pay attention to both, 100% of the time. One way is through our asset allocation philosophy. Every client is assigned a "neutral" allocation of equity and fixed income investments. If growth was the only consideration, all client portfolios would be 100% equities. However, clients vary in cash flow needs and risk tolerance. Therefore, the fixed income portion of the allocation serves as a "stable value" cushion or hedge against the volatility of stocks.

Neutral allocations are not based on how the market is performing at any particular point in time. Rather, they are based on client-determined characteristics. These include investment goals, the timing and amount of expected future withdrawals, and client tolerance for the ups and downs of the stock market. If a client's situation changes in a way that alters these characteristics, we usually adjust the allocation.

Protecting Income In Retirement

Three big risks threaten the nest egg of clients who are retired and living on investment income: *poor investment performance in the first few years after retirement, extended life*

expectancy, and inflation that exceeds GDP growth. Summit works with each client to select an appropriate allocation and a sustainable withdrawal rate to address these risks.

Typical fixed income/equity allocations for retired clients include 65/35, 50/50, and 40/60. Typical annual withdrawal rates are 3-5% of the original balance. Individual situations vary.

As part of the fixed income allocation, Summit uses a “*cash flow reserve*” approach to create regular withdrawals for clients designed to weather even the most difficult stock markets.

Being forced to sell depressed equities to make withdrawals can cut years off a portfolio’s income-generating ability. To avoid this, Summit works to allocate funds to money market, bond and other fixed income investments to support the client’s expected cash flow needs for up to five years. If the stock market is depressed during the time the reserve would normally be replenished, Summit waits until stock prices have recovered and profits can be harvested. The S&P Index has never experienced declines for a consecutive five-year period. During the Great Depression, stocks declined for four years. Three-year declines were experienced in 1939-41 and 2000-02. One- or two-year declines happen every few years.

By restricting the withdrawal rate to a sustainable level, an appropriate stock/bond allocation has a higher probability of earning enough over the long term to support withdrawals and exceed inflation. This growth helps retirees maintain the buying power of their investment incomes.

By using the cash flow reserve approach and a sustainable withdrawal rate, we improve the odds that clients will never run out of money.

Protecting Clients Approaching Retirement

Clients who are considering retirement within *five years* can be shaken by a bear market when they suddenly realize their risk tolerance is changing. The volatility of a 100/00, 80/20 or even a 65/35 allocation can seem rough when contemplating the absence of a regular paycheck.

The good news is these clients are still working and not yet dependent on investment income. That gives them time to plan ahead. While planning is taking place, Summit can help begin a transition to a more conservative asset allocation.

Planning several years ahead for retirement helps your financial advisor lead you through the relevant issues before you adopt a retirement date. The planning process can address your questions: *When should I retire? How much will I need to retire? How long will my money last? How can my money maintain buying power?* Summit’s planning software helps us quantify assumptions about retirement and consider multiple future scenarios.

Good communication between each client and their financial advisor helps us to help you through the process. If you are considering retirement, please call us.

Protecting Clients With Long Time Horizons

Time is on the side of investors. During bear markets, clients with longer time horizons find comfort knowing that U.S. stock markets have always recovered from rough times. Many of these clients are younger, with more growth-oriented allocations -- typically 100/00 or 80/20 -- that help them build their capital faster. Dollar cost averaging new money into the market through planned savings, such as 401k programs, can also help supercharge the future growth of investments.

During bear markets it is not uncommon for younger, working clients to worry about uncomfortable amounts of debt and the potential for job loss. Summit helps clients address these and other concerns.

Summit's Advantage Against Wall Street

When stock markets go against us, it is worth reminding all clients that we have significant advantages over Wall Street. Participants in the stock and bond markets include some of the most brilliant minds in the world. So how can we win? Here are a few advantages that allow Summit and our managers to succeed:

- Active Managers: We invest with active managers who seek to protect capital while they grow it. They are some of the best investors in the world. When everyone is losing their heads, it is comforting to know that there is a seasoned hand on the controls capitalizing on the fear of others.
- Longer Term Focus: Most of Wall Street focuses on the short term -- usually just the next few quarters ahead. Summit and our managers have a longer time horizon, typically 2-5 years. The difference in perspective can lead to great values for our clients.
- Aligned Incentives: People in the financial industry (brokers, banks, insurance companies) often have powerful incentives to sell you products and do other things regardless of your interests. Summit strives to keep our incentives and those of our managers aligned with our clients' interests. We help you avoid risky, high cost products. Our income rises only if client investments grow.

Tread Thompson Joins Summit Asset Management LLC

Treadwell Thompson, son of Summit principal, Alex Thompson, joined the firm on January 2nd, and is currently serving as Client Services Representative. Tread has a BA from Vanderbilt University and worked for White Plume Technologies in Birmingham before joining Summit. He is enrolled in the Certificate in Financial Planning Program at Christian Brothers University. Please help us welcome Tread.

Thank you for your faith in us.



Alex Steve Lance John