

Stoll Financial Corp.

Consultants, Brokers and Agents
...a financial engineering approach

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Dear Friends:

Re: **Unpredictable Times** Help for your family and friends from people that you ***can count on.***

There is no doubt that these are some of the most unpredictable times we have ever lived through. Our financial system and, in fact, our world seems to be teetering on the edge.

We should all get through this and may come out stronger and wiser. We believe it is just a matter of time and patience. Just as when a storm is blowing outside, it's important to stay clean, sober and wise so once the wind has passed you can take action, repair and rebuild.

A HUGE difference between a storm and this financial uncertainty is that the news media is scaring many people into perhaps making bad moves, using fear tactics and sound bites as weapons.

We have been spending a lot of time on the phone, writing letters and preparing reports for you, to help you weather this unpredictable time, and more, potentially come out of it in a position that we think will allow you to benefit from the growth and appreciation which have historically followed such times.

It is no different this time. This is the same storm we have had many times before. More severe, yes, and scarier, yes, largely because it is coming awfully close to our "retirement" and has been hard to understand and figure out where it may show up next.

It's more important now, than ever before for you and your friends and family to deal with and consult with people that you can count on. While no one saw this crisis coming, we have heard that some people in our business may be trying to profit from this fear and may, in fact, leave their clients in worse shape. We don't want that to happen to your friends and family.

If you have family or friends who are worried over what has happened to their accounts and/or you feel they might need to hear from someone you have confidence in, and someone who feels there is a logical plan to come out of this, please forward them the letters you have received from us and invite them to call us for a no cost, no obligation appointment. Or you can provide us with their contact information and we will include them on our mailing list.

Just like everyone, in normal times you might be hesitant to suggest such a thing to your friends and family, but these times clearly stopped being "normal" times a while ago. Agree?

We strongly feel it's important to **your** future that you are not surrounded by people who don't pull through this crisis effectively and positively. We believe that the way you come out of this crisis may in fact, largely determine the quality and independence you have, for all of your retirement. The stakes may be incredibly high for both your future and theirs. This is where the rubber hits the road. So, for your own financial and emotional well being we suggest that you have someone dependable help your friends and family too.

Thanks for your support and confidence; be assured we will do our utmost to help your friends and family with the same wisdom, compassion and eye toward the future as we have for you.

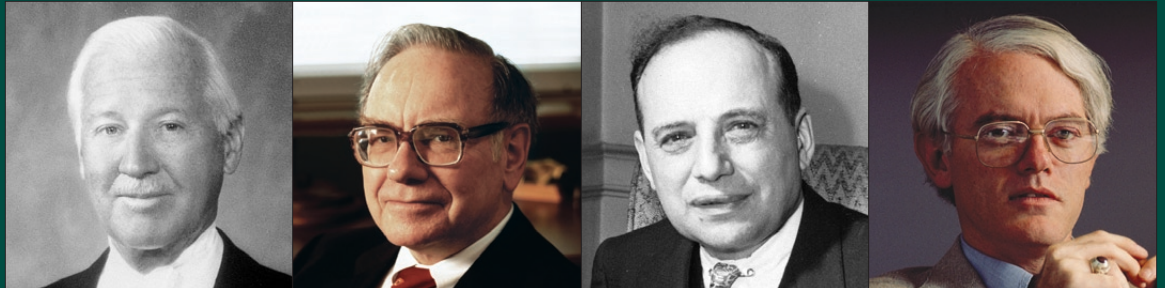
Sincerely,

Charles S. Stoll

PS: What follows is a **great** piece from Davis funds, not written by me, however the laws require that I attach a prospectus from Davis although I am not recommending that you invest in Davis funds via this letter.

The Wisdom of Great Investors

Insights from Some of History's Greatest Investment Minds



We hope this collection of wisdom serves as a valuable guide as you navigate an ever-changing market environment and build long-term wealth.

wisdom

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The Wisdom of Great Investors

During extreme periods for the market, investors often make decisions that can undermine their ability to build long-term wealth.

When faced with such periods, it can be very valuable to look back in history and study closely the timeless principles that have guided the investment decisions of some of history's greatest investors through both good and bad markets. By studying these great investors, we can learn many important lessons about the mindset required to build long-term wealth.

With this goal in mind, the following pages offer the wisdom of many of history's most successful investment minds, including, but not limited to; Warren Buffett, Chairman of Berkshire Hathaway and one of the most successful investors in history; Benjamin Graham, recognized as the "Father of Value Investing" and one of the most influential figures in the investment industry; Peter Lynch, portfolio manager and author, and Shelby Cullom Davis, a legendary investor who turned a \$100,000 investment in stocks in 1947 into over \$800 million at the time of his death in 1994.¹

Though each of these great investors offers perspective on a distinct topic, the common theme is that a disciplined, patient, unemotional investment approach is required to reach your long-term financial goals. We hope this collection of wisdom serves as a valuable guide as you navigate an ever-changing market environment and build long-term wealth.

Equity markets are volatile and an investor may lose money. Past performance is not a guarantee of future results.

¹Shelby Cullom Davis borrowed \$100,000 in 1947 and turned it into an \$800 million fortune by the year 1994. While Shelby Cullom Davis' success forms the basis of the Davis investment discipline, this was an extraordinary achievement and other investors may not enjoy the same success.

Avoid Self-Destructive Investor Behavior



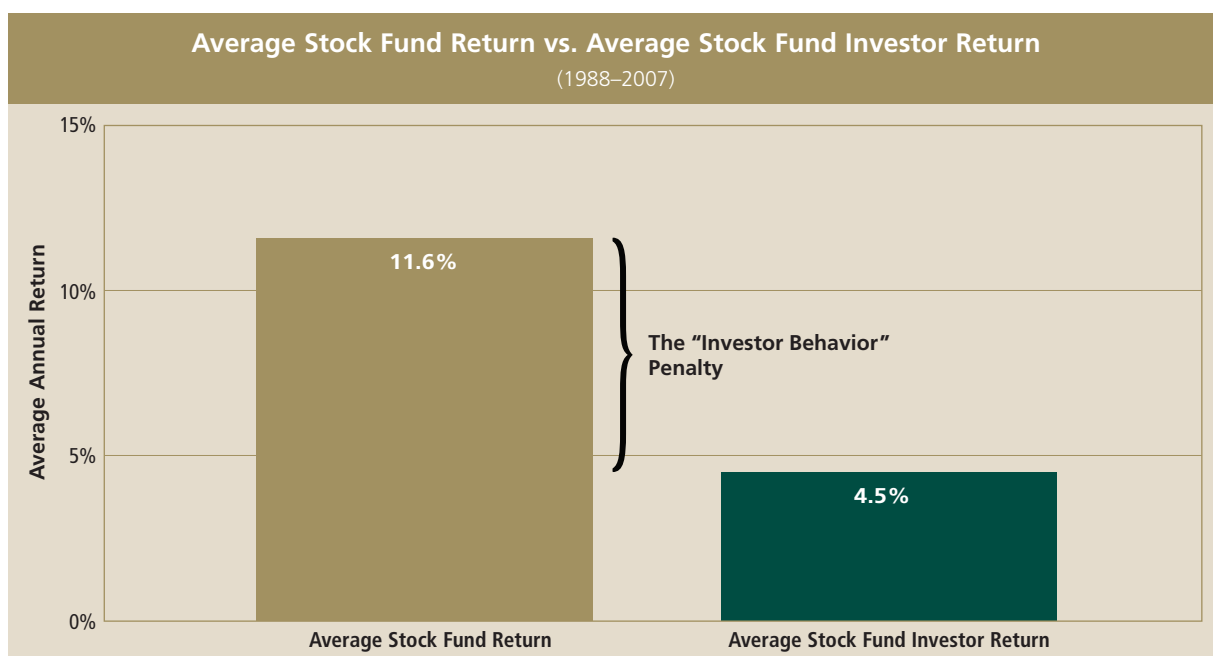
“Individuals who cannot master their emotions are ill-suited to profit from the investment process.”

Benjamin Graham. Father of Value Investing

Emotions can wreak havoc on an investor's ability to build long-term wealth. This phenomenon is illustrated in the study below. Over the period from 1988-2007, **the average stock fund returned 11.6% annually, while the average stock fund investor earned only 4.5%.**

Why did investors sacrifice nearly two-thirds of their potential return? Driven by emotions like fear and greed, they engaged in such negative behaviors as chasing the hot manager or asset class, avoiding areas of the market that were out of favor, attempting to time the market, or otherwise abandoning their investment plan.

Great investors throughout history have understood that building long-term wealth requires the ability to control one's emotions and avoid self-destructive investor behavior.



Source: *Quantitative Analysis of Investor Behavior* by Dalbar, Inc. (July 2008) and Lipper. Dalbar computed the “average stock fund investor” returns by using industry cash flow reports from the Investment Company Institute. The “average stock fund return” figures represent the average return for all funds listed in Lipper’s U.S. Diversified Equity fund classification model. Dalbar also measured the behavior of a “systematic investor” and “asset allocation investor”. The annualized return for these investor types was 5.8% and 3.5% respectively over the time frame measured. All Dalbar returns were computed using the S&P 500® Index. Returns assume reinvestment of dividends and capital gain distributions. **Past performance is not a guarantee of future results.**

Understand That Crises Are Inevitable

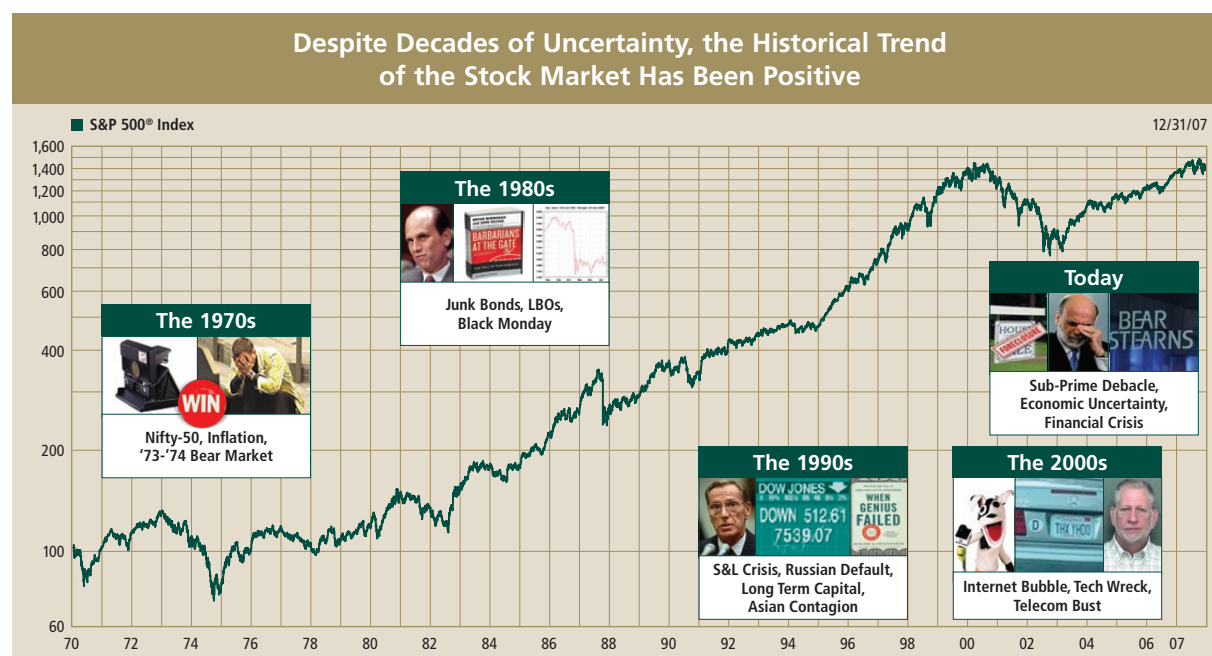


"History provides a crucial insight regarding market crises: They are inevitable, painful, and ultimately surmountable."

Shelby M.C. Davis. Advisor and Founder, Davis Advisors

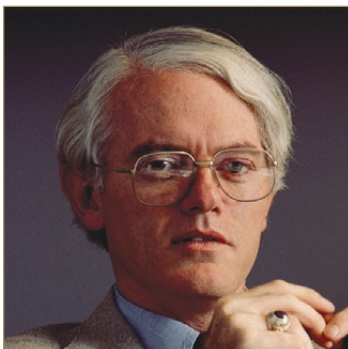
History has taught that investors in stocks will always encounter crises and uncertainty, yet the market has continued to grow over the long term. The chart below highlights the myriad crises that faced investors over the past four decades, along with the performance of the S&P 500® Index over the same time period. Investors in the 1970s were faced with stagflation, rising energy prices and a stock market that plummeted 44% in two years. Investors in the 1980s dealt with the collapse of the major Wall Street investment bank Drexel Burnham Lambert and Black Monday, when the market crashed over 22% in one day. In the 1990s, investors had to weather the S&L Crisis, the failure and ultimate bailout of hedge fund Long Term Capital Management and the Asian financial crises. Investors in the beginning of the 2000s experienced the bursting of the technology and telecom bubble, 9/11 and the advent of two wars. Today, investors are faced with the collapse of residential real estate prices, economic uncertainty and a turmoil in the financial services industry. Through all these crises, the long-term upward progress of the stock market has not been derailed.

Investors who bear in mind that the market has grown despite crises and uncertainty may be less likely to overreact when faced with these events, more likely to avoid making drastic changes to their investment plans and better positioned to benefit from the long-term growth potential of equities.



Source: Yahoo Finance. Graph represents the S&P 500® Index from January 1, 1970 through December 31, 2007. **Past performance is not a guarantee of future results.**

Don't Attempt to Time the Market



"Far more money has been lost by investors preparing for corrections or trying to anticipate corrections than has been lost in the corrections themselves."

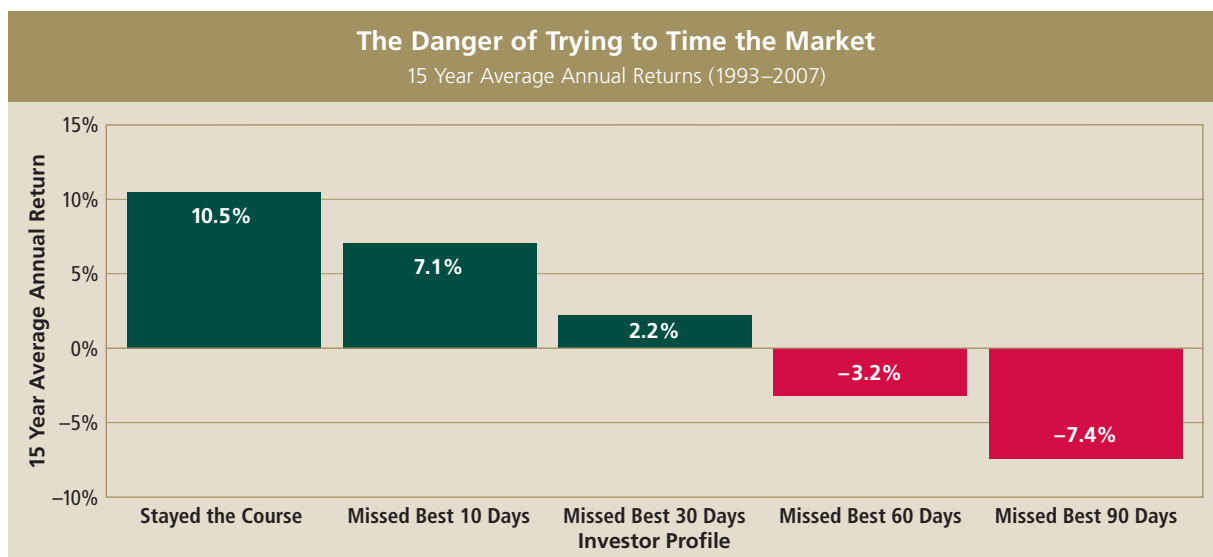
Peter Lynch. Legendary Investor and Author

Market corrections often cause investors to abandon their investment plan, moving out of stocks with the intention of moving back in when things seem better—often to disastrous results.

The chart below compares the 15 year returns of equity investors (S&P 500® Index) who remained invested over the entire period to those who missed just the best 10, 30, 60 or 90 trading days:

- *The patient investor who remained invested during the entire 15 year period received the highest average annualized return of 10.5% per year.*
- *The investor who missed the best 30 trading days over this 15 year period saw his return plummet to only 2.2%.*
- *Amazingly, an investor needed only to miss the best 60 days for his return to turn negative!*

Investors who understand that timing the market is a loser's game will be less prone to reacting to short-term extremes in the market and more likely to adhere to their long-term investment plan.



Source: Bloomberg and Davis Advisors. The market is represented by the S&P 500® Index. **Past performance is not a guarantee of future results.**

Be Patient



“Despite inevitable periods of uncertainty, stocks have rewarded patient, long-term investors.”

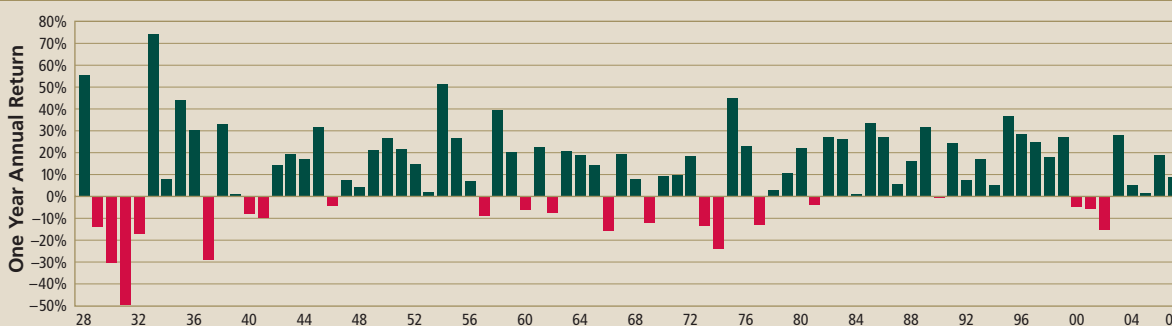
Christopher C. Davis, Portfolio Manager, Davis Advisors

One of the most common attributes among great investors is patience.

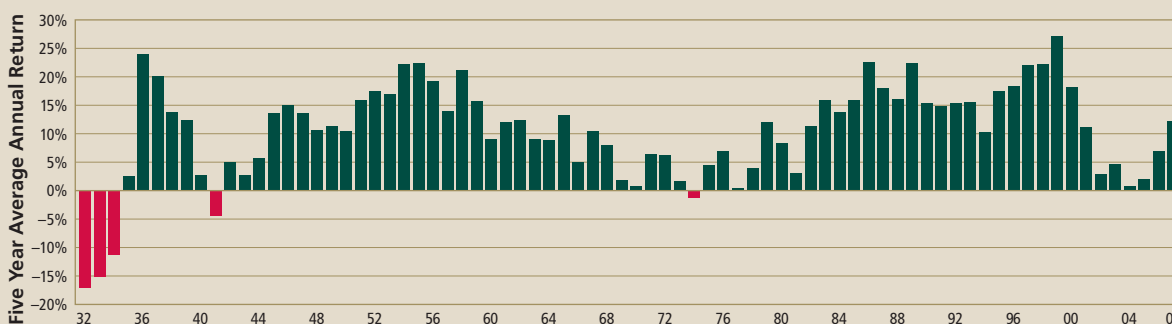
They recognize that while the mood of the market may cause a stock price to fluctuate widely over the short term, over longer periods the value of the underlying business often asserts itself. The two charts below illustrate the average annual returns for stocks over one year and five year periods from 1928–2007. The top chart indicates that stocks delivered a positive return in 59 out of 80 one year periods (74% of the time). The lower chart indicates that by extending the holding period to only five years, *stocks delivered a positive return 93% of the time* (71 out of 76 periods).

When weathering a challenging period for the market, remember that throughout history, **stocks have rewarded patient, long-term investors**. Such perspective may help you avoid making a decision that can hamper your ability to reach your financial goals.

One Year Returns for the Dow Jones Industrial Average (1928–2007)



Five Year Returns for the Dow Jones Industrial Average (Five Year Periods Ending 1932–2007)



Source: The performance was obtained from a combination of sources, including, but not limited to, Thomson Financial, Lipper and index websites. Returns are annualized total returns. **Past performance is not a guarantee of future results.**

Don't Let Emotions Guide Your Investment Decisions



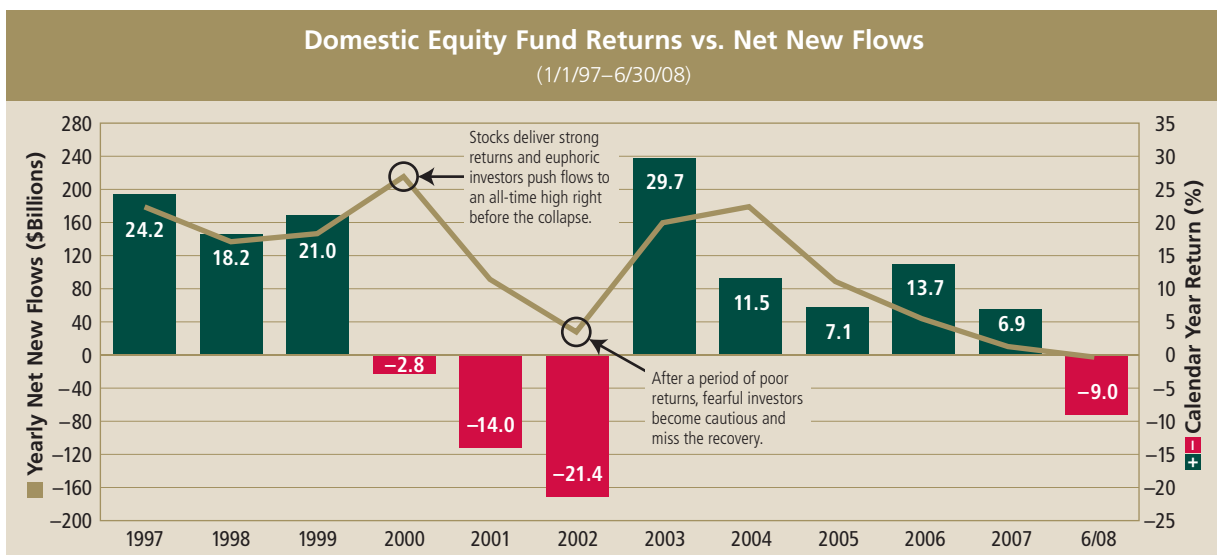
"Be fearful when others are greedy.
Be greedy when others are fearful."

Warren Buffett. Chairman, Berkshire Hathaway

Building long-term wealth requires counter-emotional investment decisions—like buying at times of maximum pessimism or resisting the euphoria around investments that have recently outperformed. Unfortunately, as the study below shows, investors as a group too often let emotions guide their investment decisions.

The line in the chart below represents the amount of money investors added to domestic stock funds each year from January 1997–June 2008, while the bars represent the yearly returns for stock funds. Following three years of stellar returns for stock funds from 1997–1999, euphoric investors added money in record amounts in 2000, just in time to experience three terrible years of returns from 2000–2002. On the heels of these three terrible years, investors turned pessimistic and placed far less money into stock funds in 2002, right before stocks delivered one of their best returns ever in 2003 (29.7%). After a difficult start to 2008, fearful investors pulled money from stock funds.

Great investors recognize that an unemotional, objective, disciplined investment approach, which often includes buying at times of maximum pessimism and exploring out-of-favor areas at times of maximum optimism, is a key to building long-term wealth.



Source: Morningstar and Strategic Research Institute as of June 30, 2008. **Past performance is not a guarantee of future results.**

Recognize That Short-Term Underperformance Is Inevitable



"The basic question facing us is whether it's possible for a superior investment manager to underperform....The assumption widely held is 'no.' And yet if you look at the records, it's not only possible, it's inevitable."

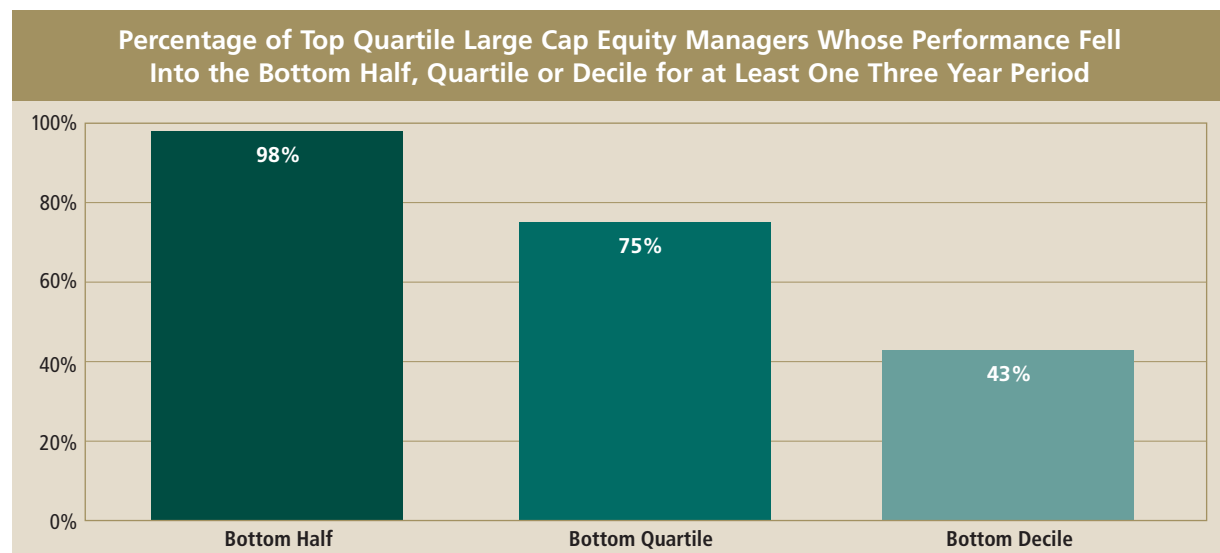
Robert Kirby. Founder, Capital Guardian Trust Company

When faced with short-term underperformance from an investment manager, investors may lose conviction and switch to another manager. Unfortunately, when evaluating managers, short-term performance is not a strong indicator of long-term success.

The study below illustrates the percent of top-performing large cap investment managers from January 1, 1998 to December 31, 2007 who suffered through a three year period of underperformance. The results are staggering:

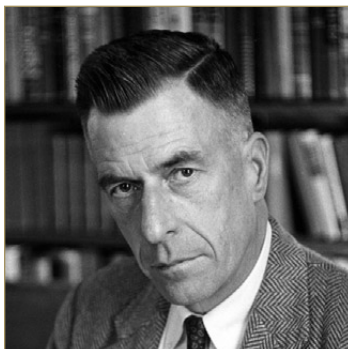
- **98% of these top managers' rankings fell to the bottom half** of their peers for at least one three year period
- **A full 75% ranked among the bottom quartile** of their peers for at least one three year period, and
- **43% ranked in the bottom decile** for at least one three year period.

Though each of the managers in the study delivered excellent long-term returns, almost all suffered through a difficult period. Investors who recognize and prepare for the fact that short-term underperformance is inevitable—even from the best managers—may be less likely to make unnecessary and often destructive changes to their investment plans.



Source: Davis Advisors. 160 managers from eVestment Alliance's large cap universe whose 10 year average annualized performance ranked in the top quartile from January 1, 1998–December 31, 2007. **Past performance is not a guarantee of future results.**

Disregard Short-Term Forecasts and Predictions



“The function of economic forecasting is to make astrology look respectable.”

John Kenneth Galbraith. Economist and Author

During periods of uncertainty, investors often gravitate to the investment media for insights into how to position their portfolios. While these forecasters and prognosticators may be compelling, they usually add no real value.

The study below tracked the average interest rate forecast from *The Wall Street Journal* Survey of Economists from December 1982–June 2008. This forecast was then compared to the actual direction of interest rates. *Overall, the economists’ forecasts were wrong in 35 of the 52 time periods—67% of the time!*

Do not waste time and energy focusing on variables that are unknowable and uncontrollable over the short term, like the direction of interest rates or the level of the stock market. Instead, focus your energy on things that you can control, like creating a properly diversified portfolio, determining your true time horizon and setting realistic return expectations.

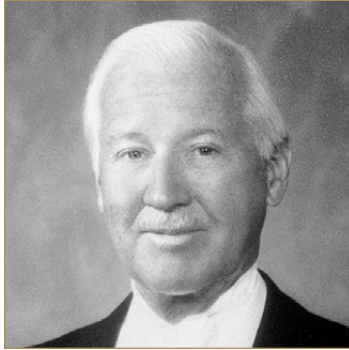
Six Month Average Forecasted Direction vs. Actual Direction of Interest Rates

The Wall Street Journal Survey of Economists (12/82–6/08)

Date	Forecast	Actual	Result	Date	Forecast	Actual	Result	Date	Forecast	Actual	Result
12/82	▼	▼	Right	12/91	▼	▼	Right	12/00	▲	▼	Wrong
6/83	▼	▲	Wrong	6/92	▼	▲	Wrong	6/01	▼	▲	Wrong
12/83	▼	▲	Wrong	12/92	▼	▼	Right	12/01	▼	▼	Right
6/84	▼	▲	Wrong	6/93	▲	▼	Wrong	6/02*	▲	▲	Right
12/84	▲	▼	Wrong	12/93	▲	▼	Wrong	12/02	▲	▼	Wrong
6/85	▲	▼	Wrong	6/94	▼	▲	Wrong	6/03	▲	▼	Wrong
12/85	▲	▼	Wrong	12/94	▼	▲	Wrong	12/03	▲	▲	Right
6/86	▲	▼	Wrong	6/95	▲	▼	Wrong	6/04	▲	▲	Right
12/86	▲	▲	Right	12/95	▼	▼	Right	12/04	▲	▼	Wrong
6/87	▼	▲	Wrong	6/96	▲	▲	Right	6/05	▲	▼	Wrong
12/87	▼	▲	Wrong	12/96	▼	▼	Right	12/05	▲	▲	Right
6/88	▼	▼	Right	6/97	▼	▲	Wrong	6/06	▲	▲	Right
12/88	▲	▲	Right	12/97	▲	▼	Wrong	12/06	▲	▼	Wrong
6/89	▲	▼	Wrong	6/98	▲	▼	Wrong	6/07	▼	▲	Wrong
12/89	▲	▼	Wrong	12/98	▲	▼	Wrong	12/07	▲	▼	Wrong
6/90	▼	▲	Wrong	6/99	▼	▲	Wrong	6/08	▲	▼	Wrong
12/90	▼	▼	Right	12/99	▼	▲	Wrong				
6/91	▼	▲	Wrong	6/00	▼	▼	Right				

Source: Legg Mason and *The Wall Street Journal* Survey of Economists. This is a semi-annual survey by *The Wall Street Journal* last updated June 30, 2008. *Benchmark changed to 10 Year Treasury. **Past performance is not a guarantee of future results.**

Conclusion



"You make most of your money in a bear market, you just don't realize it at the time."

Shelby Cullom Davis. Diplomat, Legendary Investor and Founder of the Davis Investment Discipline

It is important to understand that periods of market uncertainty can create wealth-building opportunities for the patient, diligent, long-term investor. Taking advantage of these opportunities, however, requires the willingness to embrace and incorporate the wisdom and insight offered in these pages. History has taught us that investors who have adopted this mindset have met with tremendous success.

Summary

Avoid Self-Destructive Investor Behavior

Chasing the hot-performing investment category or making major tweaks to your long-term investment plan can sabotage your ability to build wealth. Instead, work closely with your financial advisor to outline your long-term goals, develop a plan to achieve them and set the expectation that you will stick with that plan when faced with difficult periods for the market.

Understand That Crises Are Inevitable

Crises are painful and difficult, but they are also an inevitable part of any long-term investor's journey. Investors who bear this in mind may be less likely to react emotionally, more likely to stay the course, and be better positioned to benefit from the long-term growth potential of stocks.

Don't Attempt to Time the Market

Investors who understand that timing the market is a loser's game will be less prone to reacting to short-term extremes in the market and more likely to adhere to their long-term investment plan.

Be Patient

Though periods of short-term volatility for stocks are to be expected, it is crucial to bear in mind that historically stocks have rewarded patient, long-term investors.

Don't Let Emotions Guide Your Investment Decisions

Great investors throughout history have recognized the value of making decisions that may not feel good at the time but that will bear fruit over the long term—such as investing in areas of the market that investors are avoiding and avoiding areas of the market that investors are embracing.

Recognize That Short-Term Underperformance Is Inevitable

Almost all great investment managers go through periods of underperformance. Build this expectation into your hiring decisions and also remember it when contemplating a manager change.

Disregard Short-Term Forecasts and Predictions

Don't make decisions based on variables that are impossible to predict or control over the short term. Instead, focus your energy toward creating a diversified portfolio, developing a proper time horizon and setting realistic return expectations.

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Dalbar, a Boston-based financial research firm that is independent from Davis Advisors, researched the result of actively trading mutual funds in a report entitled *Quantitative Analysis of Investor Behavior (QAIB)*. The Dalbar report covered the time periods from 1988-2007. The Lipper Equity LANA Universe includes all U.S. registered equity and mixed-equity mutual funds with data available through Lipper. The fact that buy and hold has been a successful strategy in the past does not guarantee that it will continue to be successful in the future.

The graphs and charts in this report are used to illustrate specific points. No graph, chart, formula or other device can, by itself, guide an investor as to what securities should be bought or sold or when to buy or sell them. Although the facts in this report have been obtained from and are based on sources we believe to be reliable, we do not guarantee their accuracy, and such information is subject to change without notice.

The **S&P 500® Index** is an unmanaged index of 500 selected common stocks, most of which are listed on the New York Stock Exchange. The Index is adjusted for dividends, weighted towards stocks with large market capitalizations and represents approximately two-thirds of the total market value of all domestic common stocks. The **Dow Jones Industrial Average** is a price-weighted average of 30 actively traded blue chip stocks. The Dow Jones is calculated by adding the closing prices of the component stocks and using a divisor that is adjusted for splits and stock dividends equal to 10% or more of the market value of an issue as well as substitutions and mergers. The average is quoted in points, not in dollars. Investments cannot be made directly in an index.

Shares of the Davis Funds are not deposits or obligations of any bank, are not guaranteed by any bank, are not insured by the FDIC or any other agency, and involve investment risks, including possible loss of the principal amount invested.

