

Markets



Chilly November

THE S&P 500 AND THE DOW EACH LOST ABOUT 4% in

November, while Nasdaq and the Russell 2000 small-cap index retreated around 7%.

EAFE, the Europe Asia Far East index of developed markets excluding the U.S., was down about 3.5%.

Tremendous gains like we've recently seen, particularly overseas and in emerging markets, typically mean giving some back. Remember that normal market action is two steps forward and one step back.

But this year has seen bigger steps than usual. The DJIA hit more record highs with larger swings than normal in 2007. So far this year, U.S. stocks have had daily swings of 2% or more 20 times, far more than the typical three or four in recent years. Still, current volatility is not out of line with long-term averages.

After credit worries hurt stocks in July and August, stock markets rallied in September and the Dow hit another record in early October. Markets then sold off and several indices dropped 10% - the amount which generally defines a normal correction.

It was a tough November all around the globe. Bear funds were the only equity fund group with positive returns last month, up over 5% on average. Recently high flying gold funds were the hardest hit, down 10%. Next came Asia/Pacific region (excluding Japan) funds, down 9.6%, followed by small foreign funds, with value (-8.3%) worse than growth (-7.8%). Diversified emerging market funds gave back 7% last month.

Domestically, real estate was the worst performing group, down 8.8%, followed by tech and communications. Health care, utilities and large company funds held up the best, as they typically do in down markets.

So far this year the dollar has fallen 5% against the pound, 7% against the yen, 10% against the euro and 14% against the Canadian dollar. Since the dollar hit its all-time high in October 2000, it has lost nearly 50% of its value to the euro.

For U.S. investors holding foreign funds denominated in euros, that's a big boost. For instance, this year-todate the EAFE index has climbed 5% when measured in local currencies, but the gain is 14% when measured in dollars.

A weak dollar is a mixed bag for U.S. companies. Generally, multinational exporters profit because their products become cheaper for foreigners,

and foreign currency earned overseas translates into more dollars. On average, the S&P 500 companies earn about 30% of their revenues overseas, but naturally some sectors do more international business than others. Semiconductors, for example, derive about 70% of revenues overseas.

There's no way to know how long the dollar's weakness will last or how long foreign markets will continue strong. Fortunately, a disciplined strategy like Upgrading removes the need to predict market direction.

Upgraders stay fully invested because returns are better when we continue to follow the system in a disciplined manner, rather than reacting emotionally to market swings, or to what we think the market ought to do.

We understand that it's not always easy to stay invested -- particularly for new investors who may be starting off with losses -- but the discipline to follow the system is necessary if you expect to participate in Upgrading's long-term success.

Thank you for your business,

P. Michael Valley II



Merry Christmas

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