



Second Quarter 2008 Investment Report

In This Issue

Pachyderms & Asses

DIXON HUGHES WEALTH ADVISORS Continues to Grow

Second Quarter 2008 Asset Class Returns

Pachyderms & Asses

Elephants and donkeys. Republicans and Democrats. No matter what you call them or what your affiliation, the conventions and big election are coming soon. In less than four months, we will all know who our next President will be.

This subject may make you somewhat nervous, just in case the current market conditions haven't made you nervous enough. It appears to be a close race, with the Democratic candidate having as much chance to win as the Republican. Conventional wisdom says that a Democratic President poses some dangers to the stock market and investing in general. Whether correct or not, many see Democrats as "tax and spenders", while viewing Republicans as champions of tax cuts. Republicans are known as pro big business, whereas Democrats are seen as pro-regulatory and potentially anti stock market. This line of reasoning says that, simply put, a Democrat in the White House is a scary proposition for the average investor.



Fortunately, as we have discussed in earlier quarterly reports, conventional wisdom can often be dead wrong. Numerous studies have been done on this subject, and the results should allow for a sigh of relief if indeed a Democrat is elected. A UCLA study* in 2003 found that during the period between 1927 and 1999, a broad-based market index averaged about 5% better average annual returns when a Democratic occupied the White House compared to a Republican. A Democrat-controlled Congress showed similar patterns. In 100 year (1900-2000) studies shown in the 2000 edition of the Stock Trader's Almanac, a Democratic Senate returned 10.5% vs. 9.4% for Republicans, and Democratic House returned 10.9% vs. 8.1% for Republicans

Economic growth, as measured by GDP (Gross Domestic Product), followed the same pattern. The Almanac showed that since 1930, (when the data became available), GDP was 5.4% for Democrats and 1.6% for Republicans. Finally, as if to add insult to injury, the UCLA study also reported that market volatility was actually less in Democratic administrations than Republican ones.

According to all this data, shouldn't we just do away with all Republicans and crown the Democratic candidates "Kings for Life"? Well, not so fast. When you look behind the numbers, there may be some data skewing. Firstly, many of the major bear markets occurring in the 20th century had Republican Presidents in office (1929, early 1970's, 1987 and early 2000's). While you could still point to the presidential leadership, or lack thereof, as a major reason for the market weakness, at least some of the blame for the poor market returns may come from the previous administration's actions. Also, along with higher Democratic market averages and economic growth came higher

interest rates and their corresponding higher inflation rates. Consequently, the inflation-adjusted rates of return make the comparisons a little less glaring, although they were still meaningfully higher.

The only thing you should probably take away from these studies is that having a Democratic President elected this November would not, in and of itself, mean the next four years would have a demonstrated negative effect on the stock market, investing and the economy. So regardless of what type of political animal you are, go perform your civic duty on November 4th, and let's see what new leadership can do to help guide this country toward better times.

*Journal of Finance 10/2003 "The Presidential Puzzle: Political Cycles and the Stock Market" Pedro Santa-Clara and Rossen Valkanov

DIXON HUGHES WEALTH ADVISORS continues to grow

In November 2007, Sarah Paris became our Director of Marketing. She has an impressive background, having worked at Goldman Sachs in New York City and most recently with a Charlotte-based hedge fund. Sarah graduated cum laude with a degree in economics from Duke University, and is an ardent (too ardent?) Blue Devil's fan. Sarah and her husband live on a farm in Lincolnton, NC, where her enjoyment of the country is enhanced by her two cats, several pygmy goats and a miniature donkey.



Earlier this year, Dollie Smith-Feldmeth became a financial advisor in our Asheville office. She has been in the financial business nearly 10 years, most recently having investment advisor responsibility for eight office locations of a regional bank. Dollie has a business degree from Western Carolina University and she lives with her family in Hendersonville, NC. She is active in community affairs and is a big Florida Gators fan.

Financial advisor Clay Thornton joined the firm in June, and will be in charge of our Summerville (Charleston) SC office. Clay has over 20 years experience with top 5 securities firms. He was born, raised and still lives in Summerville with his family. Clay is a graduate of the University of South Carolina with a degree in finance, and is an active tri-athlete. Clay's long-time senior administrator, Jessica Robinson, has joined him in the move to this new office, and we could not be happier.



Second Quarter 2008 Asset Class Returns

	2nd Qtr	'08 YTD
S & P 500	-2.75%	-11.96%
Large Cap Value	-3.12%	-10.56%
Medium Cap	2.92%	-7.90%
Small Cap	1.05%	-8.22%
Small Cap Value	-4.83%	-10.43%
Micro Cap	-3.47%	-13.38%
Real Estate	-5.39%	-3.38%
Intermediate Income	-2.21%	0.92%
Long Term Income	-1.52%	-0.30%

<i>Int'l Large Cap</i>	-1.06%	-8.95%
<i>Int'l Large Cap Value</i>	-5.89%	-13.61%
<i>Int'l Small Cap</i>	-2.93%	-7.92%
<i>Int'l Small Cap Value</i>	-5.15%	-8.62%
<i>Int'l Emerging Mkts</i>	-1.35%	-11.68%
<i>Int'l Em. Mkts Value</i>	-4.01%	-13.14%
<i>Int'l Em. Mkts Small</i>	-6.71%	-19.85%
<i>Pacific</i>	1.46%	-6.84%
<i>European</i>	-4.10%	-12.29%
<i>Int'l Real Estate</i>	-13.44%	-17.18%

Vanguard Group and DFA, Inc.

The second quarter was a big tease for investors. After hitting lows in mid March, most equity asset classes spent the first half of this past quarter repairing themselves, with most up 10% or more from those March lows. But starting in early June, broad based selling once again ensued, and most equity asset classes ended the second quarter lower than they started. Domestically, Small Caps out performed Large. Normally, in the first stage of a new bull market, Small beats Large. Could this be an early sign of a potential bottoming? Real Estate's -5% returns in the second quarter offset its positive first quarter returns, and assured that all equity returns are underwater on a year-to-date basis.

Internationally, it was worse. All equity classes underperformed their domestic counterparts, with International Real Estate leading the way down. Even bonds experienced losses, as interest rates rose due to fears of inflation. All in all, it was another tough, grinding quarter.

On the economic front, it is no more pleasant. Statistically, we are not in a recession. (First quarter 2008 GNP was revised to up 0.9%, whereas a recession is defined as two consecutive quarters of negative GNP growth). This is somewhat surprising given the barrage of tough news on energy, the US dollar and credit markets. The economy is really hanging tough, but one has to wonder if we are destined for an official recession as the year continues. The biggest culprit appears to be energy. You can basically tell the direction of the daily market fluctuation by watching the intra-day pricing of crude oil. Regardless of the energy bubble that appears to be forming, some cessation of continued "new highs" in energy will probably be needed to place a support under stocks.

Single family housing sales, while still weak, appear to be slowing their downward velocity. In some regions of the country, sales of existing inventory seem to be stabilizing, at least over the short term. It will take a few more months of comparisons, but we may be seeing the beginning of a bottoming process. This will likely be a multi-quarter process, with more time needed to work off the excesses of the last decade.

Past bear markets have shown that they often end well before the bad news gets better. Market bottoms usually take place when the news is at its worst, with nothing positive appearing on the horizon. That is the reason attempting to time market swings is so unprofitable. With markets discounting news often 6 to 9 months in advance, if you wait until the news is "better", you're guaranteed to miss a sizable portion of the next bull trend. For that reason, we don't make major strategic changes in your portfolio during these tough times.

We know that when the end of the down cycle takes place, there are no bells ringing or whistles blowing. If you want to ride the next market advance in its entirety, you have to be in position the day it starts...and you will be. So be patient. Trust an investment methodology that is scientifically/academically backed, that has won a Nobel Prize in Economics and has been used for over 50 years by some of the largest institutional investors on the planet. If realizing excellent long term rates of return on equities were easy, everyone could do it. It isn't, and they don't. But you will.

Due to our recent name change, amendments have been made to our SEC Registration Form ADV Part II. If you would like a copy, please contact our Chief Compliance Officer - Kate Anderson, at 828-236-5801.

The next few months promise to be exciting, for both short term economic and long term political reasons. Stay cool...in more ways than one.

Sincerely,

Dixon Hughes Wealth Advisors

Quick Links

[Visit Our New Website](#)

[Join Our Mailing List!](#)

[Forward email](#)

 **SafeUnsubscribe®**

This email was sent to info@dhwallc.com by info@dhwallc.com.
[Update Profile/Email Address](#) | Instant removal with [SafeUnsubscribe™](#) | [Privacy Policy](#).

Email Marketing by



Dixon Hughes Wealth Advisors | 500 Ridgefield Court | Suite 100 | Asheville | NC | 28806