



Thoughts on the S&P Downgrade and Market Turmoil

Dear Clients and Friends:

The recent downturn in the financial markets has been both swift and stressful. We understand that sharp market declines can be worrisome, so we wanted to check in, share our perspective about what's going on, and explain recent actions we've taken on your behalf - firmly in the context that ***our overall investment principles remain unchanged***. As always, please feel free to call us if you would like to have a conversation with us about your own thought processes at this time.

As you know, on Monday, the market reacted to the Standard & Poor's rating agency downgrade of U.S. sovereign debt from AAA to AA+. So what do we think? The short answer is that recent events, troublesome as they may be, are consistent with the broad view we have held for some time. We already have allocated your portfolio relatively conservatively based on this view. And, as in many things in life, wise preparation is vastly preferred to reacting to crises when they occur. As our colleague Carl Richards observed in his recent [New York Times Bucks commentary](#) on the matter, "It's not a good idea to figure out how a parachute works after you jump out of the plane."

So, with preparations already firmly in place, we have watched over your investments. The reasons listed for the downgrade were not a surprise to us, as we have been writing about these and related risks for several years. In fact, if anything surprised us, it was that stocks continued to climb this year, despite all of the macro level economic risks for which we've been preparing your portfolio. The latest headlines - the downgrade, "worse-than-expected" U.S. GDP growth, increased risk of a double-dip recession, and worsening European debt load concerns - are consistent with our big-picture outlook regarding economic risks we all face.

Which just goes to show, yet again, that real or perceived economic risks don't translate as precisely as one might expect to the stock markets' *reactions* to those risks. That's why it's critical to prepare a portfolio that reflects *your* long-term tolerance to those risks, so you don't feel compelled to react to them when they do (or do not) occur.

Thus, we hope you'll take this opportunity during turbulent markets to ... do nothing in response. In the meantime, on your behalf, we have taken an important step to sustain your portfolio in accordance with your disciplined, long-term financial goals.

As a result of the recent stock market declines, our portfolios had become excessively overweighted to bonds and cash. Accordingly, we **rebalanced** them to decrease their allocation to bonds and increase their allocation to stocks, in accordance with a conservative reflection of your originally planned weights for each. If the market continues to decline, we may again increase your stock positions. Keep in mind that as equities decline in value, all things being equal, future expected returns increase.

We understand that watching a steep market decline can be unsettling and stressful. It is particularly important during times like these to remain objective and follow a disciplined investment process. As your wealth manager, we will continue to evaluate the markets and their underlying drivers with an eye toward minimizing unnecessary risk and maximizing expected long-term returns. As always, any action we take will be measured, based on preparation rather than reaction and process rather than emotion.

Some time ago, we created an Align Wealth Management "Owner's Manual" that describes the particulars of our recommended investment strategies and activities as you seek to build long-term

wealth. It includes our Nine Essential Principles of Investment Management. You may find it comforting to review our [Owner's Manual](#) at this time, to confirm that these principles remain unchanged amidst current events.

If you have any questions about our investment outlook or recent portfolio moves, please don't hesitate to contact us. In particular, if you are questioning whether your original Investment Policy Statement continues to reflect your life's goals, circumstances and risk tolerances, we are here for you.

Best regards,

Align Wealth Management