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# FREDERIC T. KUTSCHER ASSOCIATES, INC.

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*Comprehensive financial counsel for individuals, families and trusts*

Frederic T. Kutscher Associates, Inc. serves approximately 75 clients who have varying goals that are implemented employing individually tailored investment policies.

The November 2002 letter highlighted the results for an unassisted market participant in the 50% drop in the S&P index from March 2000 to early October 2002. In contrast, it provided the client with the returns for their portfolio both during the market's slide as well as the results from October to late November 2002.

The following is an example of a letter for a client with a policy of 5% cash, 35% bonds and 60% equities.

November 27, 2002

## Pausing For Perspective

As we write on the eve of Thanksgiving, a traditional time for reflecting and counting our blessings, we have some information and a perspective to share, perhaps a message of comfort and hope.

While financial planning is much more intricate, complex and personalized than market information, an overwhelming amount of conversation, phone time and ink has been devoted to portfolio performance and the markets. It's been a difficult year to discuss anything but the stock market. Make that two or three years!

Let's step back more than five years and see what's happened. In the first three years of that period, or from about April 1997 to March 2000, prices of America's largest companies doubled (rose 100%). Then in the ensuing two and a half years they tumbled about 50%. This left things about where they started in April 1997. But it was an eventful climb and fall, akin to scaling a mountain and tumbling down the other side.

Many studies have shown that people are psychologically inclined to react more strongly to losses than to gains. So we think it would be helpful to provide a snapshot of how your diversified investments at Schwab fared during the big 50% losing cycle in the stock market – the top of the market to the bottom (we hope!). During this time,<sup>1</sup> your investments held in Schwab were down -17%.

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Now turning to the upside, since the low point (we hope) in October<sup>2</sup>, your investments held in Schwab were up around 10%.

Stepping out of the moment and meditating on the larger lessons of this year (and the last five years), some reflections seem appropriate. First, it is a human tendency to extrapolate infinitely from events of the moment. In the sphere of personal finance this means that things are seldom as bad or good as they seem at any moment in the markets. We should resist feelings of elation or desolation from market reports. Second, our portfolios are not identical to “the market” we read about (you have investments in various kinds of asset classes). Third, as a diversified portfolio, your investments should not experience the volatility portrayed by the media.

Being financial counselors, we’re grateful that our clients haven’t had to learn the hard way that diversification is the best way to protect against extreme market volatility over the short or long-term. It’s clear by listening to media reports and listening to anecdotes that this concept is just dawning on quite a few people.

Finally, a message of guarded optimism: We’re not in the business of forecasting either diversified portfolios or stock markets, but we do feel that on the whole US stocks may be reasonably valued once again (even offering some opportunities); European companies actually look inviting as do reits and high-yield bonds. The economy appears to be improving slowly but surely. Granted, there continue to be short-term risks. But there will always be short-term risks that affect the temperature of the market (today these are terrorism, Iraq, Christmas sales, business investment, 4<sup>th</sup> quarter earnings, and consumer confidence). Having a long-term horizon is the key in times like these.

Happy Thanksgiving, and we hope you have a great holiday season.

Sincerely yours,



Frederic T. Kutscher

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Endnotes

<sup>1.</sup> From March 24<sup>th</sup> 2000 to October 9<sup>th</sup> 2002

<sup>2.</sup> From October 9<sup>th</sup> 2002 to November 22<sup>nd</sup> 2002