



## **Advisors Access Newsletter for October 2008**

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Given the preponderance of the media coverage and the numerous communications you have already received from us in the last few weeks, I won't attempt to offer a "real time" assessment of the market's recent performance.

Instead, I will focus on a question that has cropped up in the media recently and may have even entered your mind: "Is diversification dead?"

This claim has been raised because of the general panic that swept the markets in recent weeks, in which investors fled just about every investment other than U.S. Treasuries, including stocks, corporate and municipal bonds, real estate and even commodities. As a result, even conservative portfolios that are well diversified and have considerable allocations to fixed income have seen significant declines in recent weeks.

It is important to recognize that, while such periods of time are rare, they do occur. They do *not*, however, historically last very long. Traders refer to such time periods as "temporary price dislocations" – a better name for them might be "temporary insanity". They occur when hysterical investors sell anything and everything no matter the price, the risk or the underlying value of the asset. Once the world takes a collective breath, however, and realizes that the good has been swept out with the bad, the tide turns and the course is reversed; very often a sort of "buying panic" quickly ensues.

When that occurs is impossible to say, but we can definitively say that the markets in the long run are governed by economic fundamentals, not emotional frenzies. We can also say definitively that diversification does work, over time, by greatly diminishing the risks associated with being concentrated in just a few stocks or market sectors. Diversification is not a magic cure that saves investors from every difficult market environment. Rather, it is a form of long-term risk reduction that helps ensure that we don't suffer the sorts of disasters that investors in everything from AIG to Freddie Mac to Wachovia have experienced all too vividly in recent months.

To paraphrase Mark Twain, "The reports of diversification's death have been greatly exaggerated."