

Fourth Quarter 2008

# Progress Report

2008 was one of the most challenging years that most of us have witnessed in a very long time. Difficult as it has been, however, it is not without precedent. In fact, if we could deliver a single message to every one of our clients, it would be this: We have been here before and we have always recovered and eventually enjoyed new periods of prosperity. The U.S. and world economies are resilient, and that has not changed.

For many investors, though, this bear market feels different. In fact, every bear market is different, but having lived through past market downturns has given us some added perspective. In 1973–1974, the Standard & Poor’s 500 Composite Index

declined for 21 months and some wondered if we would ever recover. In the early 1980s, short-term interest rates exceeded 20%, inflation was in the teens, and the market lost 27%. In 1987, the market lost 20% in a *single* day. Earlier this century, the tech bubble burst and the S&P 500 lost 49% while the Nasdaq Composite Index lost 78%.

Keeping a long-term perspective doesn’t make it easier to live through the current downturn, but it does reinforce our conviction that we will get through it. Already, governments around the world essentially have said, “We’re going to do whatever it takes to get this system running smoothly again.” But

## Your Core Investments at December 31, 2008

Category	Fund Name	YTD Return	Date First Purchased	Period Owned	Period Return	
					-Fund -	-Comparison-Index
Aggressive Equity Strategies	DFA Emerging Markets Core Equity	-50.7%	Mar 25, 2008	10 mos.	-45.4%	-45.4%(a)
	DFA Intl Small Cap Value	-41.7%	Mar 25, 2008	10 mos.	-38.4%	-38.4%(b)
	DFA U.S. Small Cap Value	-36.8%	Mar 25, 2008	10 mos.	-35.2%	-35.2%(c)
Diversified Equity Strategies	First Eagle Global**(1)	-21.1%	Sept. 26, 2001	87 mos.	+125.5%	+40.4%(d)
	DFA Large Cap Int’l	-41.4%	July. 31, 2008	5 mos.	-33.8%	-33.8%(e)
	Kinetics Paradigm	-53.2%	Aug. 16, 2007	17 mos.	-26.2%	-34.6%(f)
	Income Fund of America	-28.9%	Feb. 17, 2005	46 mos.	-11.6%	-19.7%(f)
	Fairholme Fund	-29.7%	July. 31, 2008	5 mos.	-28.9%	-28.5%(f)
Income and “Market Neutral” Strategies	DFA Inflation-Protected Securities	-1.4%	July. 31, 2008	5 mos.	-2.9%	-5.2%(g)
	Capital World Bond Fund	-0.6%	Aug. 30, 2007	14 mos.	+3.6%	+7.7%(h)
	Loomis Sayles Bond	-22.2%	Sept. 8, 2005	37mos.	-8.2%	+9.1%(h)

(1) Fund’s standard sales charge waived for clients of IFC Advisory.

\* Fund is closed to new investors.

\*\* Fund is generally closed, but still open to new and existing IFC Advisory clients.

- (a) DFA Emerging Markets Index
- (b) DFA Intl Small Cap Value Index
- (c) DFA US Small Cap Value Index

(d) MSCI-EAFE (IShares MSCI EAFE Index as proxy)

(e) DFA Large Cap Intl Index

(f) S&P 500 (Vanguard S&P 500 Index Fund as proxy)

(g) (IShares Lehman TIPS Bond as proxy)

(h) Lehman Brother Aggregate (Vanguard Total Bond Market Index as proxy)

Risk tolerance considerations and other individualized factors determine specific holdings for each account. Many accounts do not include all funds listed. Some accounts include additional investments for specialized purposes. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities on this list.

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it will take time for stimulus packages to have an impact. After all, when you oil a bicycle chain, you've got to roll it around a few times to spread the oil out and get things running smoothly.

Over the past several months, clients, friends, neighbors and even casual acquaintances have asked us a question about the current financial situation & they want to know, "What happened?" Many pundits in the financial press have declared that new products, such as credit default swaps, collateralized debt obligations and special investment vehicles, were the culprits. Our view is more basic. We think we got in this mess because the market fundamentally mispriced risk. Too many financial firms and corporations either mismanaged their risks or simply didn't understand how much risk they were taking. Too many institutions ended up with too many obligations that they couldn't meet.

If there is any silver lining, it is that going forward risk management will appropriately be front and center. The corollary, of course, is that with less risk comes lower returns. When we recover, we think investors would be wise to anticipate single-digit returns for the foreseeable future.

The troubles in the financial industry have proven difficult for all of us. Investments in financial companies were an important part of most portfolios around the world. Many of these companies have a long history of paying steady dividends, we believe dividends are a crucial part of any investor's long-term total return. In recent years, yields declined in many industries (if stock prices rise at a faster pace than dividends, the yields decline), but it would be wrong to attribute the disappointing results of any portfolio strictly due to the financial sector as many other industry sectors, such as consumer staples,

consumer durables and energy, for example, have seen major declines as well. This market downturn has been deep and pervasive but a market slump like this also creates opportunities to buy good quality blue chip companies when they are at very low prices, essentially on sale!

As we noted at the beginning of this Progress Report that 2008 was one of the most challenging years we have all experienced in a very long time, and we wish we could assure our clients that this downturn will end tomorrow or next week. But one of the most important lessons we've learned from the past regarding market cycles is that no one rings a bell signaling the top of a market and no one rings a bell at the bottom. While we don't know when we'll reach the low point, or if we're already past it, we do know that the market will eventually recover and investors who stay the course will be better positioned to participate in the market's eventual recovery.

In closing, we want to thank our clients for their patience and continued trust in IFC Advisory in these challenging times. We continue to monitor your funds and act for you on a daily basis. If you have friends or family members that have investment questions or if they would like a second opinion on their own investment portfolio we would be glad to extend to them a complimentary one hour review of their current situation. You can have them get in touch with us or you can pass on this Progress Report to them as all of our information is located at the bottom. Please call us at any time with questions or concerns — we are here to serve you!

### ~ IFC Advisory's Spotlight ~

#### **Obama's Stimulus Package**

President-elect Barack Obama arrived in Washington the week of January 5th and began lobbying for \$775 billion in stimulus spending over the next two years, the nation's economists - at least the ones who are listened to in Washington - expressed near unanimous support. This support showed no signs of wavering when the Congressional Budget Office projected Wednesday that even before any new spending, the federal deficit will top \$1.2 trillion this year. As Obama summed it up in a speech at George Mason University on Thursday January 8th, "There is no doubt that the cost of this plan will be considerable. It will certainly add to the budget deficit in the short term. But equally certain are the consequences of doing too little or nothing at all."

The dilemma is over whether stimulus should take the form of tax cuts or government spending. The main argument for spending over taxes is that at a time when American consumers have turned suddenly frugal, they're more likely to save any extra cash they get than spend it. This may be the right thing for most people to do, but it won't stimulate the economy. Meanwhile, if consumers do spend the money on TVs and cars and such, much of the impact will leak out overseas to pay for imports.

We will have to wait to see what course of action the Obama administration takes for the stimulus package: tax cuts, government spending, or a combination of both!

#### **Note**

We obtain data from sources we believe are reliable but they should not be relied upon for making financial decisions without consulting your advisor.

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