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# MARKET *Commentary*

## FAM EQUITY-INCOME FUND UPDATE

The second quarter of 2009 showed many promising signs, including:

- The stock market is beyond where it started on January 1st despite February's severe decline. As of 6/30/09, the S&P 500 was up 3.2% for the year.
- The best performing S&P 500 stocks were companies that had "near death" experiences and traded at single digit stock prices in early March. This is typical after a significant market correction.
- Banks raised more than \$30 billion in capital to shore up their balance sheets and pay back money to the government. It's positive that investors bought shares in financial institutions and demonstrates their expectation of a return on investment – investors don't buy shares out of the kindness of their hearts.
- Economic data is looking "less bad." May job losses were much smaller than expected. The ISM Manufacturing Index (a national index based on a survey of about 300 industrial company purchasing executives) reported that factory orders were increasing.
- Inflation is low and interest rates, while rising, are still near historical lows. Also, consumer confidence is at its highest level since September 2008.

### The Cost of Market Timing

Currently, many people are basing investment decisions solely on macro

economic predictions (guesses) rather than the underlying value and growth prospects of businesses. And as many investors move in and out of the stock market hoping to time things just right, the results demonstrate that market timing is an exercise in futility.

Market timing is attempting to catch the market at its highest or lowest point hoping to maximize returns. However, research studies support the investment adage, "Time in the market is better than timing the market." The evidence below from a *Morningstar* study is compelling and shows that market timing can be costly.

#### Missing the S&P 500 Stock Market's Best Days 1989-2008

Invested For All Days (no market timing)	=	8.4% Return
10 Best Days Missed	=	4.9% Return
20 Best Days Missed	=	2.6% Return
30 Best Days Missed	=	0.6% Return
40 Best Days Missed	=	-1.2% Return
50 Best Days Missed	=	-2.8% Return

Nobel Laureate William Sharpe found that market timers *must* be right an amazing 82% of the time just to equal the returns that buy-and-hold, long-term investors achieve. While long-term investors are steady, the market timer sweats over when is the best time to get in or out of the market. So being fully invested—even through a downturn—yields better investment results over the long term than trying to time the decline, removing capital from the stock market, and returning when "things are better."

An investor recently asked Paul Hogan, Co-Manager of the Equity-Income Fund, about inflation and how it will affect the portfolio. To paraphrase, Paul says that inflation has been with us a long time and is not entirely bad; currently, it's actually pretty low. Not long ago we were worried about deflation which is much more destructive. The government is pumping money into the economy and this will ultimately bump up inflation, but by how much only time will tell.

When people ask about inflation what they really mean is, how do I hedge against inflation and, as a result, protect my purchasing power. The answer is to own interest in businesses that can grow their cash flow faster than the rate of inflation. At FAM, the companies we look to invest in tend to generate significant operating cash. This cash flow helps them stay ahead of inflation and grow which, in turn, protects your purchasing power. We also look to invest in businesses that are a "need to have" and not a "nice to have" which means the demand for their products and services is steadier.

*FAM Equity-Income Fund's investment objective is to provide current income as well as long-term capital appreciation. Every company in which we invest must pay a dividend.*