

WESTOVER CAPITAL ADVISORS, LLC

ASSET MANAGEMENT & INVESTMENT COUNSEL

H. MURRAY SAWYER, JR., ESQ.

H. M. SAWYER, III, CFA

Direct Dial
(302) 427-6988

1220 N. MARKET STREET
SUITE 800

Direct Dial
(302) 427-8080

HMS@WestoverCapital.com

WILMINGTON, DELAWARE 19801-2555

Chip@WestoverCapital.com

(302) 427-9600 Voice
(302) 427-8900 Fax
www.WestoverCapital.com

WESTOVER MUSING

On Tuesday of this week, the Maconi/McGuire team at Merrill Lynch hosted a presentation at the DuPont Country Club where representatives from BlackRock, the world's largest publicly traded investment management firm with almost \$1.5 trillion in assets, spoke about both their firm and their current view of the markets.

Notice the "s" on market, as one of the prevailing themes of the talk was the growing importance of international markets. Fully half of the BlackRock's 5,500 employees live and work outside the U.S. And despite recent volatility, emerging market economies are still growing significantly faster than the U.S. market. The market capitalization of non-U.S. stock markets has grown from 34% of the world's total in 1970 to 58% of the world's total in 2007. Assuming that same growth rate, non-U.S. markets will make up 73% of the world's total by 2030. So when clients ask their financial advisor how the market is doing, the response may soon be, "which one?"

Oscar Pulido, a vice president at BlackRock, spent most of his time speaking about BlackRock's flagship fund started in 1989, the Global Allocation Fund, and the fund management team's current view of the markets.

The \$50 billion fund, holds over 750 individual securities, is diversified across asset classes, geography (40 countries represented), market capitalizations, and sectors. They also diversify the fund's cash position by holding different currencies. The fund is currently slightly underweight equities at 55% versus their benchmark of 60%. The equities are split about evenly with half in U.S. equities and half in international equities, where the fund is overweight Asia and Latin America and underweight Europe.

As far as sector bets, the fund is overweight materials, telecom, health care, industrials, and energy. It is underweight the U.S. consumer, financials, and information technology. The fund is also slightly underweight fixed

income at 34% versus their benchmark of 40%. About 60% of their fixed income assets are U.S. based with the remainder international. More specifically, they are overweight TIPS (Treasury Inflation Protected Securities) and U.K. gilts and underweight Japanese government bonds and continental Europe sovereign bonds. That leaves their cash position at 11% which is higher than their benchmark.

With respect to BlackRock's overall impression of the investing environment and world economy, they are generally pessimistic. Among their many concerns are mounting household debt (especially in the U.S. and U.K.), high commodity prices, rising unemployment, stagnating real wages, and rising delinquency rates across all types and qualities of credit.

With the U.S. Treasury's recent commitment to help capitalize Fannie Mae and Freddie Mac, they anticipate higher taxes, regardless of who wins the Presidential election, to help pay the huge potential bailout.

However, they have recently become more positive about the U.S. markets (increasing the U.S. dollar denominated percentage of their fund to 68%) namely because the Fed is likely finished cutting rates and the dollar has weakened to a level where foreign investors will find U.S. assets very attractive. They also believe there are bargains to be found in the materials and energy sectors.

One of the last slides in the presentation showed the fund's performance from 2000 to 2007. Specifically, it showed how the fund performed relative to its benchmarks during the bear market of 2000 - 2002 and compared that to how it performed relative to its benchmarks during the bull market of 2003 - 2007. Over that entire period, the fund performed impressively, well ahead of its peers. But where it really distinguished itself was not during the bull market when it was only slightly ahead of its benchmarks. The most impressive period of outperformance was during the bear market when the fund managed to squeeze out a 2% positive return while the S&P declined almost 40% and the NASDAQ plunged over 60%.

By the way, those S&P index investors who suffered that 40% decline did finally get back to even . . . four years later. Coincidentally, through the end of this August, the S&P 500 Index price has appreciated exactly 67% in the almost six years since the S&P's 40% decline at the end of 2002.

Westover Capital Advisors appreciates the importance of capital preservation during a bear market. We recognize the

huge positive impact minimizing losses has on long term performance. Simple arithmetic demonstrates that to overcome the previously mentioned 40% decline in the S&P and get back to even requires a 67% positive return.

This is why we have recommended underweighting equities in our clients' accounts as the current market continues to struggle to find its bottom. It is also why we are content to miss the absolute bottom of the bear market in exchange for the peace of mind of knowing that our clients' capital remains safely preserved and their long term outlook secured.

For those of you reading this missive who are existing Westover clients, we will shortly send a follow up email regarding a WCA-designed modification to your respective asset allocations.

Please don't hesitate to contact us if we can be of further assistance.