

Third Quarter 2008 Knowledge College

A Bear Market Survival Guide

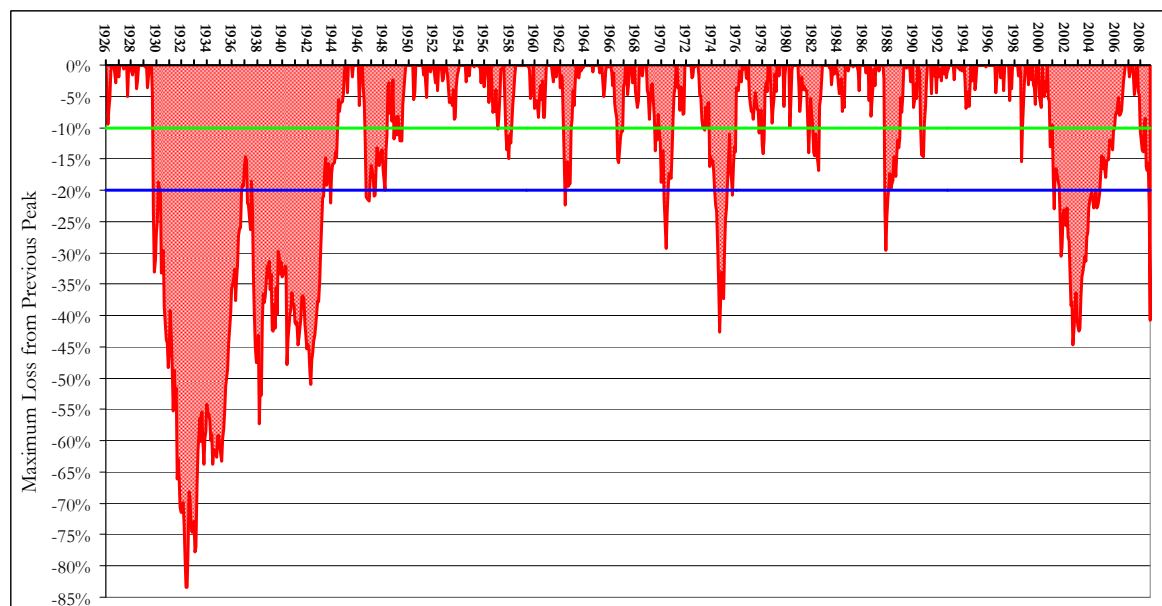
Historical Bear Attacks (1/1/1926 – 9/30/2008)

- ✓ Eight Bear Markets since 1926.
- ✓ 10.3 years between Bear Markets (on average).
- ✓ Recoveries took an average of 4.2 years (in prior seven bear markets).
- ✓ S&P 500 spent 23% of its time in Bear Market territory (>20% off high).
- ✓ S&P 500 spent 36% of its time in Correction Territory (>10% off high).

Date of Bear Market Valley	Max loss from peak to trough (month-end)	Years from 20% loss to break-even
June 1932	-83.4%	15.3
November 1946	-21.8%	3.2
June 1962	-22.3%	0.9
June 1970	-29.2%	1.0
September 1974	-42.6%	2.3
November 1987	-29.5%	1.7
September 2002	-44.7%	5.3
Average Bear Market	-39.1%	4.2
Current Bear Market*	-40.7% (as of 10/10/08)	?

*Bear market still in progress.

Historical S&P 500 losses from Prior Peaks (January 1926 – October 10, 2008)



Will We Recover?

- ✓ We have recovered from each of the past seven bear markets in dramatic fashion.
- ✓ The S&P 500 Index has averaged +123.5% in the 5-years after the last seven bear markets.

5-Year Returns after Prior Bear Market Bottoms

Date of Bear Market Valley	Max loss from peak to trough	S&P 500 Index Total Return over Next 5 Years.
June 1932	-83.4%	367.4%
November 1946	-21.8%	114.5%
June 1962	-22.3%	75.9%
June 1970	-29.2%	42.2%
September 1974	-42.6%	91.5%
November 1987	-29.5%	96.8%
September 2002	-44.7%	76.2%
Average Bear Market	-39.1%	123.5%
<i>Current Bear Market*</i>	<i>-40.7% (as of 10/10/08)</i>	<i>?</i>

*Bear market still in progress.

Conclusions

- ✓ If we could accomplish our goals by investing in T-Bills, we certainly would.
- ✓ Nobody seeks risk, but it is the price paid for higher long-term returns.
- ✓ Stay diversified and follow a disciplined portfolio-rebalancing plan.
- ✓ Hope for a near-term bottom, but prepare for a rocky road ahead.
- ✓ **Difficult markets require poise.**