

October 15, 2010

Dear Friend,

Best September since 1939?

Yes, in fact, it is true. It was the best September in the market in over 70 years with the S&P 500 earning 8.92% for the month. Though, to be clear, it followed an unpleasant August as we witnessed a -4.51% decline. Prior September market returns have not been kind to investors as it is the worst calendar month in terms of rate of return of all other months. In contrast, what is one of the best months? Yes, August. So if an investor or speculator, had been fully invested at the beginning of August in an attempt to take advantage of a historically positive month, and then went to cash trying to miss the worse month of the year, the outcome would have been less than stellar. They would have lost -13.2% in two months time. If they had missed July as well with its 7.01% gain, then the loss would have been more than -20% in a market where the gains are positive year to date.

This is the risk for investors that try to time the market based on short term anomalies that markets have demonstrated in the past. Whether it is speculating on calendar months, sell in May and go away, the January effect, or others, there has not been an investment strategy based on an anomaly that produces consistent, positive returns over time. Even if there appeared to be a trend that seemed to provide an advantage to investors, with the availability of today's technology and the speed in which information travels all over the world, it would not take long for investors to take advantage of the anomaly, thus rendering it of no effect.

September also happens to be the 7 year anniversary of the announcement by NY Attorney General Elliot Spitzer regarding the issuance of a complaint against various investment companies with respect to late trading practices. These practices essentially allowed some investors to trade within the mutual fund after normal business hours when the fund would have otherwise been closed for the day. Spitzer, along with the Securities and Exchange Commission, later charged that major mutual fund families had also participated in market timing, basically allowing some investors to trade more frequently than the average shareholder, thus increasing the costs and risks for all shareholders of the fund.

This is why we see many of the class action settlements investors have received over the last year or so from prominent mutual fund families. At Arcadia, we realize the confusion around this issue. We are doing all we can to assist with paperwork and the submission of claims for those that were clients of Arcadia during the time frames specified by each mutual fund family. Those clients that were not with Arcadia or Schwab during the specified time frame may find assistance, including claim forms, at www.mutualfundsettlements.com.

If you have further questions regarding this matter, or if we can assist with any other financial issue, please contact us. We are happy to help.

Arcadia Investment Advisors, LLC