

July 31, 2008

Dear Friend,

In our letter last quarter, we referenced the frequently cited concerns of the credit crunch, possible recession, foreclosures, rising oil prices, the declining dollar and the threat of inflation. Now it's three months later and the same concerns are still in the news and the market is down even further. We saw encouraging market recovery in April and May and then – the worst June since the Depression. The S&P 500 has declined approximately 13% since the beginning of the year.

Based on what we've been hearing from our clients, it seems that rising oil and gas prices have been particularly worrisome. One of our clients heard from her accountant recently that with oil this high, it was inevitable that the stock market is about to crash disastrously and everyone should get their money out of stocks. While that is an attention-grabbing comment, we disagree. Despite our very best efforts, we have not yet developed our own fortune telling, future predicting talents to be any better than a coin flip. Absent that ability, getting in and out of the market is not a strategy we can profit from.

While we don't think we'd benefit from changing our asset allocation strategy while the market is down, we do wonder about gas and oil prices at unprecedented highs. How can we return to prosperity while virtually every business and every consumer is struggling with such a cost increase?

We sought a broader perspective in which to frame the question by looking internationally. In the table below we've presented some comparative data. We see here that over the past 5 years gas prices have more than doubled in many places beyond the U.S. In fact, price increases of this magnitude have taken place around the world.

We've chosen some European countries where gas prices today are twice our current historic highs. Five years ago their prices were similar to our current levels. While their prices doubled *again*, their economies and stock markets have flourished. Annual returns on stocks have been in the teens and twenties. While we don't pretend to understand all the complex variables that led to this outcome, we are certainly pleased to see it.

We hear and read a great deal about how *it's different this time*. There is open speculation about whether we'll ever recover from this economic predicament. (The last time we heard the term *it's different this time* so frequently was in the late '90s when the thought was there was no limit to the upside of our technology driven stock market). We suggest a dose of healthy skepticism as you absorb today's news. We've recovered from literally **dozens** of worse market downturns than this over the past 200 years.

We're convinced that it is not different this time and that our economy and our market will recover once again. Only the competent fortune teller can tell us just when that will happen.

Country	Gas prices in US dollars as of:		Avg. annual return on stocks for 5 yrs ending 5/30/08
	6/30/2003	6/23/2008	
U.K.	\$4.68	\$8.79	16.24%
France	\$4.28	\$8.80	19.92%
Germany	\$4.67	\$8.88	25.66%
Belgium	\$4.15	\$9.02	20.47%
Netherlands	\$4.95	\$9.90	20.45%
U.S.	\$1.67	\$4.31	9.77%

Sincerely,

Arcadia Investment Advisors, LLC