

April 17, 2008

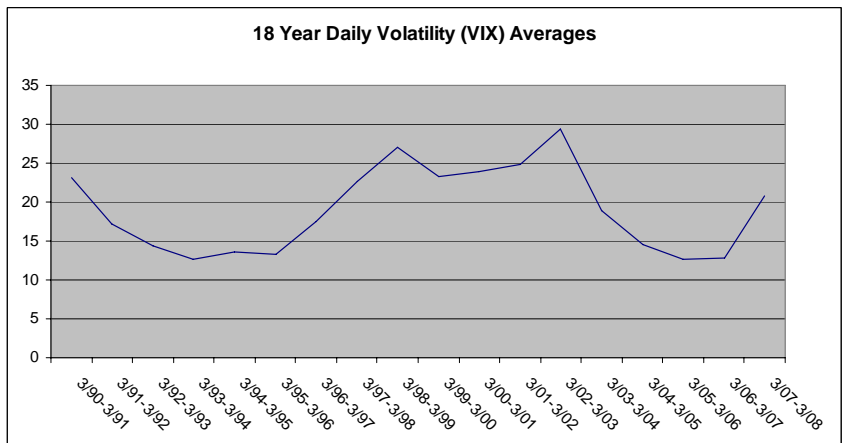
Dear Friend,

As the first quarter has now come to a close, it seems we can all agree on one thing. We're glad it's over! The S&P 500 was down about 10% year to date, its worst quarter in 5 and 1/2 years. The news media outlets have been faithful at sounding all of the alarms of the current economic slowdown. Credit crunch, recession, foreclosures, rising oil, declining dollar, and potential inflation are all things we hear about daily. The fear of a slowdown has also led to what seems unprecedented volatility in the markets. Though market volatility has been higher in the last year or so, it certainly is not unprecedented.

The Volatility Index, or VIX, measures the stock market volatility implied by the price of the S&P 500 options on the Chicago Board Options Exchange (CBOE). The higher the VIX goes, the more volatile the market, up or down. What we discovered when writing this piece is that the VIX is trading at about 23; two years ago the index was 13. So the recent market has been nearly twice as volatile as it has been in the last couple of years.

However, if we look at the last 18 years we have a little better perspective. Recent volatility, though seemingly extreme and twice as volatile, is actually only slightly above average.

What are the implications for investors? As long as your time horizon for access to your funds is longer term, there are few implications. Any money that needs to be accessed in the shorter term, say the next few years or less, has no business being invested in stocks anyway. So the only real implication for investors may be our emotional state.



So how should we feel? Is it normal to feel anxious, upset, worried, and a bit queasy as we see portfolio values fall? Absolutely! No one likes it. But one thing we should not feel is surprised. Economic contractions are simply a part of an overall cycle that has occurred for decades in our economy and others around the world. In the U.S., one in every five years is a market decline of 25% or more. Yet even with those down times, stocks have averaged low double-digit returns. Though we aren't saying you shouldn't have feelings of concern, we are recommending that you not be surprised. Recent market performance is perfectly normal, and does not philosophically change our time-tested approach to investing.

Please contact us if we can address any financial needs or answer any questions you may have.

Arcadia Investment Advisors