Nov. 21, 2008

Greetings:

As we watched the calamity in the capital markets earlier this fall turn into the hyperbole around our recent election, many of us have been watching for a rebound in the stock markets. Clearly, we are still waiting and may well have to for some time more. Those of us prone to action have to wonder what we should be doing as the markets continue to jerk up, down and mostly sideways. Please allow me to share a discussion which recently occurred between two First Command investment analysts and a small group of clients. The mounting frustration of one client finally boiled over. "I don't want to hear all of this stuff about staying the course!"

When this incident was related to me, I told our analysts that we should not be surprised or in any way offended by this client's reaction; that we should, in fact, understand exactly how he feels. Because it's difficult to imagine a less satisfying response to what we've all been told is the biggest financial crisis since the Great Depression than doing ... nothing. When things go wrong, we're wired to do something – anything – about it. If our favorite team hits a losing skid, we want the coach to be fired. If we get in the line that's not moving at the grocery store, we change lines. Does it always work? No – but at least we feel like we're doing everything in our power to change our circumstances.

Staying the course, on the other hand, runs the risk – as pointed out by the reaction of our frustrated client – of being interpreted as surrendering to one's circumstances, or stubbornly clinging to a plan that isn't working. Though most of us are willing to acknowledge that doing nothing sometimes turns out to be the right approach in the long run, it's not really the answer any of us wants to hear at what we perceive to be a crucial juncture in our financial journey. Like right now.

So after some reflection on this issue, I think we need to redefine "staying the course" as it applies to First Command clients' pursuit of their financial objectives. **Staying the course does not – necessarily – mean doing nothing. It should mean doing things that are consistent with your long-term financial plan.** It should not, in other words, mean changing your strategy, but it could mean employing new tactics to take advantage of the changing conditions and opportunities that are bound to emerge over the course of time and the inevitable market cycles.

Let me give you a few examples of the kind of tactical opportunities presented by the current financial meltdown and currently being discussed by some First Command Financial Advisors with clients for whom they are appropriate:

- Using the currently favorable capital gains tax environment – in some cases, current mutual fund balances are lower than their cost basis – to evaluate, reposition and, in some cases, strategically diversify and upgrade investment portfolios.
- Taking advantage of the same circumstances to convert traditional IRAs to Roth IRAs.
- Increasing monthly contributions to IRAs – the annual contribution limit rose to $5,000 for those under 50 and $6,000 for those age 50 and above – to take advantage of what is likely in retrospect to be viewed as a tremendous buying opportunity.

Our advisors are also meeting with clients to review, repair and strengthen their personal balance sheets. Let's face it, it's not just big corporations that have taken on too much debt and failed to adequately invest for the future in recent years. And it's crucial that individuals who have developed sloppy financial habits take steps now to put the train back on the track.

It may also be a good time for some to re-evaluate their tolerance for risk and perhaps their diversification or allocation of holdings in different asset classes. While one may have felt more aggressive during less volatile market cycles, the experiences of the last several weeks may cause a completely different perspective to emerge.

This doesn’t have to be a time for standing idly by as the winds of change sweep over the global financial landscape – and our personal investment portfolios. It is indeed possible, and good practice, to stay the proper strategic course without standing idly by. And that even in those cases where you and your advisor determine that staying the course really does mean doing nothing, you will be reassured by the fact that you reached that conclusion only after carefully considering all other options available. We believe that’s what sound financial planning is all about.

Warm regards,

J. Scott Spiker
Chief Executive Officer
First Command Financial Services, Inc.

“A market downturn doesn’t bother us. For us and our long term investors, it is an opportunity to increase our ownership of great companies with great management at good prices. Only for short-term investors and market timers is a correction not an opportunity.”- Warren Buffett