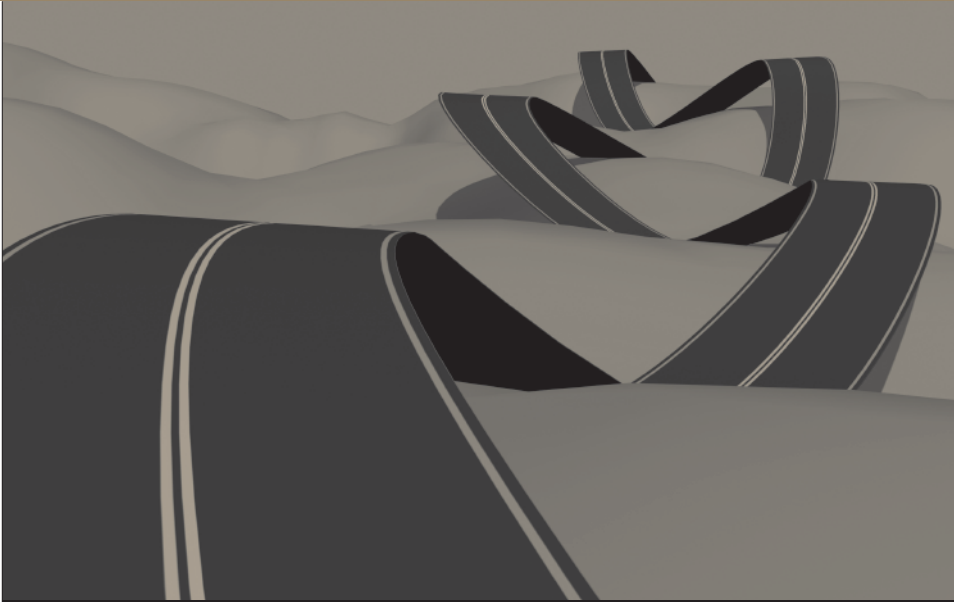


SAVANTtalk

WINTER 2008

Helping clients maximize their assets, enhance the quality of their lives, and realize personal and financial goals.



A very bumpy fourth quarter, with mixed results across markets, cast a shadow over a previously decent year. Fixed income markets rallied as the Federal Reserve lowered interest rates and maintained its commitment to providing liquidity. Both domestic and developed international markets lost ground in the quarter, but still finished positively for the year. Real estate was hurt by the sluggish housing market, while commodities ended the year with solid gains.

Fixed Income (Bonds) – Bonds rose again in the fourth quarter as many investors avoided the volatility of equities. The *Lehman Brothers Aggregate* Index, the bell-weather bond index, gained 3.0%. The subprime debt challenge, the housing market correction, and the resulting rising oil prices continued to weigh on investors' minds. Many large and previously stable financials such as Citigroup and Merrill Lynch had their credit ratings downgraded due to large subprime mortgage losses. The Federal Reserve responded by lowering interest rates and indicated its commitment to provide liquidity. Short-term bonds experienced modest gains. Inflation rose in the fourth quarter fueling healthy gains in inflation-protected (TIPs) bonds which gained 5.0%. Savant bond strategy which focuses on high quality, short-term, intermediate-term, and inflation-protected bonds while avoiding investment in high-risk subprime, benefited from this environment.

Domestic Stocks – U.S. stock investors had a volatile ride in the fourth quarter. The *S&P 500* (U.S. large stocks) fell 3.3% in the quarter in spite of a relatively healthy economy. Consumer spending remained strong and core inflation (excluding energy and food prices) remained low. Unemployment rose slightly, but it is still low. These positive factors were not enough, however, as the subprime mortgage market continued to pester domestic stocks. Investors worried that housing and liquidity problems would hurt other areas of the economy. With troubles in the financial industry,

financial stocks dropped 14.3%. Consumer discretionary stocks also fell as consumers spent less on luxury goods. Traditionally less volatile sectors such as utilities and consumer staples performed better. Energy stocks rose fueled by rising oil prices. Value stocks, which had outpaced growth stocks for several years, declined the most this quarter due to their large financials exposure. Large growth stocks also declined though less. In particular, small stocks significantly trailed large stocks for the quarter. U.S. small value lagged behind small stocks. This negatively affected your portfolio as Savant slightly overweights the small asset class.

International Stocks (Developed Markets)

Similar to domestic stocks, international stocks experienced a rough quarter. The MSCI EAFE index, which includes large developed companies from Europe, Australia, and the Far East, fell 1.7%. Once again, returns were aided by a weakening dollar. The weak dollar prevented larger losses. The international economy continued to grow at a steady rate, but worries around events in the U.S. persisted. Stocks fell in Japan and in the UK largely due to the financial sector and its ties to credit challenges in the U.S. Conversely, stocks in Germany, Europe's largest economy, actually rose 5.1% in response to falling unemployment. Like in the U.S., international large stocks outperformed international small stocks which declined. International growth stocks also outperformed international value stocks.

International Stocks (Emerging Markets)

The *S&P/IFCI Emerging Market Index* was up 3.9% for the quarter. GDP growth continued to explode in China and India – the hottest markets by far. While this growth corresponded to phenomenal gains in India, Chinese stocks actually declined. The Chinese government indicated in November that it would delay allowing mainland investors to invest in Hong Kong stocks. Russia and Brazil also had very strong returns due to rising commodity prices and strong economic growth. Taiwan, however, declined due to rising inflation and unemployment.

Real Estate (Equity REITs)

The Equity REIT Index fell 12.7% while investors worried that the weak housing market and subprime challenges would harm other real estate sectors. The decline was felt across the board as most sectors experienced double digit losses. The residential and lodging sectors fell the most.

Commodities

The *Dow Jones Commodity Index*, which contains a broad range of commodities, rose 4.7% in the fourth quarter. The industrial metals sector decreased sharply due to the slowdown in construction. Livestock also fell. Energy prices, on the other hand, surged due to record high oil prices. Agricultural prices also rose driven by soybeans which are in demand as fuel. Soybean prices rose by almost half!

2007 In Review

Modest Gains for Diversified Investors

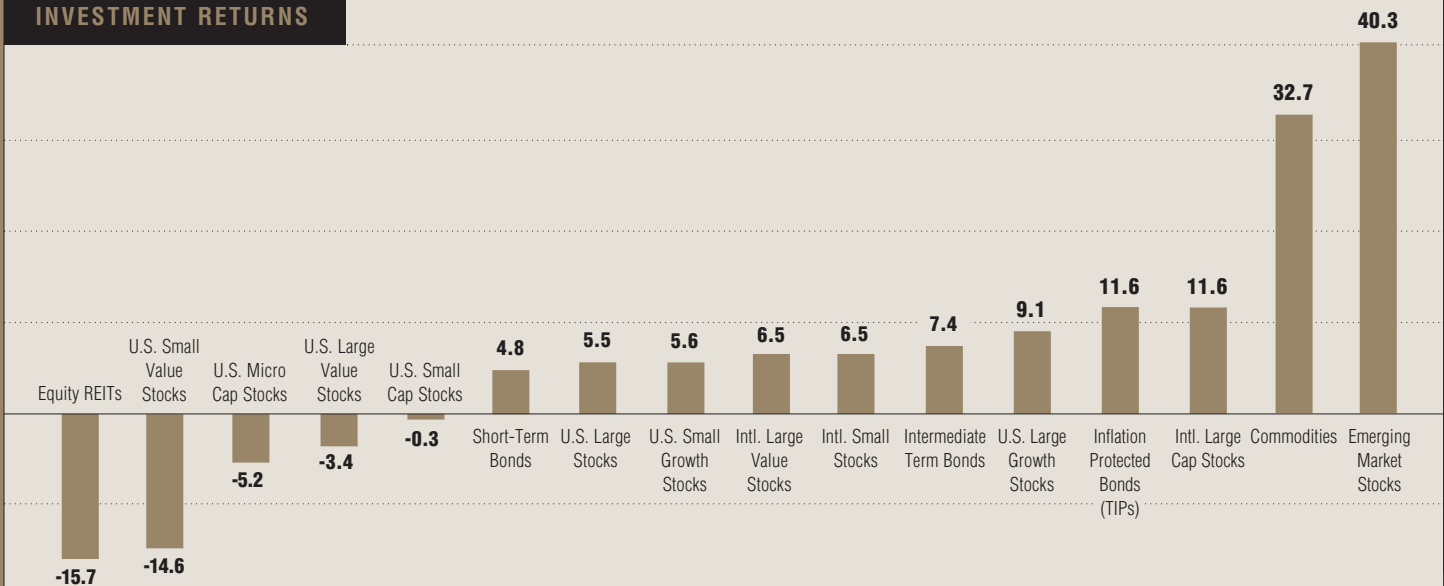
For a globally diversified investor, 2007 was a positive year. The market took a wild ride that left investors feeling a lot worse than they felt at the start of the year.

The *S&P 500* (U.S. Large Stocks) rose to its peak in July then retreated 8% in less than a month because of the subprime mortgage crisis making the headlines. The market reversed course quickly and hit an all time high in October. Stocks then stumbled again at year-end. After all the ups and downs, the *S&P 500* ended the year with a modest 5.5% gain. U.S. small and value stocks did worse. The housing market and subprime mortgages instigated this volatility. > The housing market's growth contracted after many years of explosive gains. As the Federal Reserve raised rates, home prices dropped sharply while construction of new homes decreased by 25% creating the biggest decline in the housing sector in 27 years. Prior to the correction, banks and lending institutions had loosened their lending standards. Thus with higher rates, the number of people defaulting on their mortgages rose drastically and unexpectedly. The highest number of defaults came from subprime mortgages – loans to individuals who would not ordinarily qualify. Many companies that either deal in or invest in subprime mortgages reported huge losses. This caused lending institutions and investors to reevaluate their risks, and in the end, lend less money. Though lending to highly rated individuals continued as normal, the riskiest borrowers found few options. Investors' fears that the subprime debacle would spread to other sectors of the economy caused much of the 2007 volatility. > Despite the turmoil, positive fundamental factors contributed to the market's modest overall rise. Inflation, unemployment, and interest rates remained very low throughout the year. GDP growth was very strong due to

steady consumer spending and rising exports. Dividend yields increased overall, and corporate profits and investments were very strong. In 2007, the economy was healthy creating wealth that diversified investors could enjoy. > Large growth stocks, such as technology stocks, returned to favor in 2007 (they had been in the dog house since 1999) and racked up a 9.1% gain. These stocks remained mostly immune to the troubles felt in the financial sector. Conversely, large value stocks, which include a higher exposure to the financial sector, suffered a loss. Small stocks likewise fell as smaller companies were more vulnerable to credit challenges. With such a wide range of returns, diversification delivered by protecting investors from the problems that particular stocks or sectors face. > Savant investors benefited from global diversification in 2007. International large cap stocks, as measured by the *MSCI EAFE* Index rose 11.6%, outperforming U.S. large cap stocks for the fifth year in a row. Emerging markets also continued their run of spectacular gains, climbing 40.3% due to significant economic growth in India, China, and Brazil. International and emerging market gains helped offset losses in U.S. small and value stocks. > Savant bond investors enjoyed healthy returns. Low quality corporate bonds floundered due to subprime problems. However, Savant portfolios own high quality and inflation-protected bonds and did well. The Federal Reserve lowered rates several times throughout the year. Bonds rose in response. Inflation-protected bonds rose 11.6%. Both short-term and intermediate-term bonds rose as well. > REITs and Commodities had mixed results in 2007. REITs fell across the board as investors avoided the real estate sector. Commodities, however, gained 32.7% as energy, precious metals, and agricultural commodities soared.

Figure 1

2007 ASSET CLASS INVESTMENT RETURNS



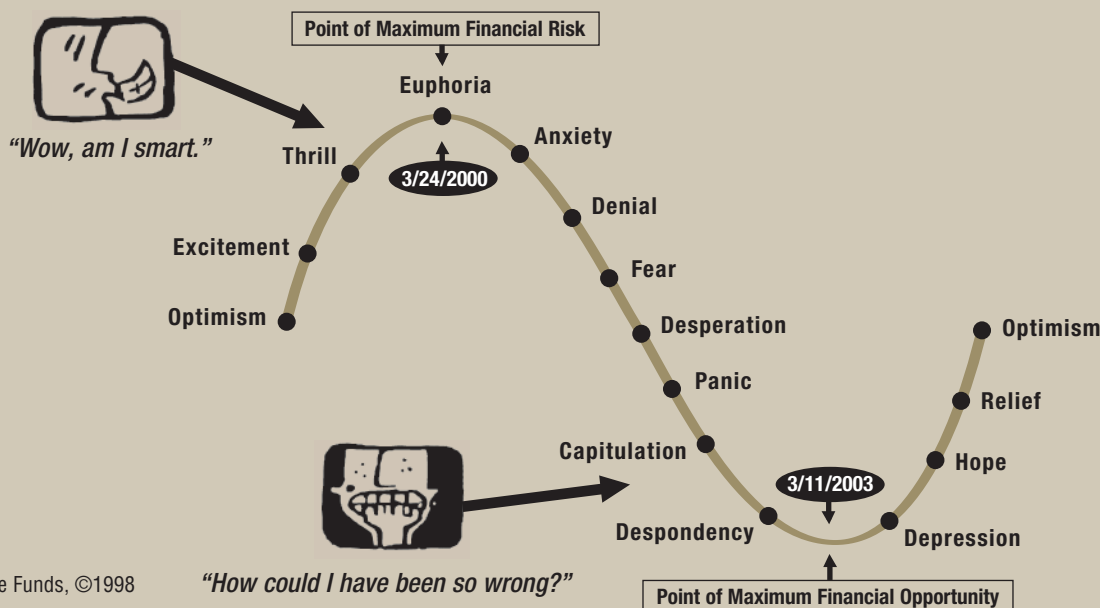
SHOULD YOU CHANGE YOUR ALLOCATION?

A number of clients have posed the question above to us lately. In light of volatile markets, investors are wondering whether they should reduce their exposure to equities. In contrast, very few people have called to discuss the wisdom of buying more stock at today's lower prices. In short, while we believe there are instances where it makes sense to lower one's exposure to growth assets (stocks and REITs), most of the recent inquires seem to be more inspired by short-term fear than based on sound fundamental rationale. It is important to recognize that short-term investment decisions based on either greed or fear tend to sabotage emotionally ridden investors. > To better understand the decision surrounding allocation change, let us use the late 1990s and subsequent 2000-2003 bear market as a case study. Figure 2 illustrates the cycle of emotions that investors went through in the period leading up to the rupture of the tech bubble in March 2000 in the following decline that hit rock bottom in March 2003, and in the subsequent recovery. > In the late 1990s, investors felt good. In fact, "euphoric" best described the mood. At the time, our clients regularly asked questions such as "why the heck should I own any bonds at all since stocks only go up?" People asked, "Does it make sense to invest more aggressively?" Even the smartest investors used terms such as "new paradigm," "new economy," and even "It's different this time." When polled in 2000, investors actually expected 25%+ annualized future stock returns. We happily talked most of our clients off the ledge—helping them avoid diving head first into technology stocks, NASDAQ, dotcoms, telecom, and day trading. > Almost exactly three years later, the bubble had fully deflated. The mood was dire. "Despondence" best described the tone in early 2003. Investments were no longer fun. Many investors actually

assumed stocks would continue falling indefinitely. In the weeks leading up to the market bottom, many clients called to ask if they should reduce their allocation to stocks. As you might have guessed, a few, despite our best contrary advice, sold low. They incurred all the pain of the bear market, but their portfolios did not recover when the rally came. They had already retreated to cash, bonds, and CDs. > The irony is that when market participants are the most scared to invest (e.g., March 2003), the risk is actually lowest. The return potential is the highest. In contrast, when the market participants feel very good (March 2000), the risk is actually the highest while the potential return the lowest. Our emotions tend to point us in exactly the wrong direction at exactly the wrong time! It is important to avoid making investment decisions based on greed or fear. Instead, investors should make decisions based on their long-term needs and goals. > If it does not make sense to change your allocation in response to recent big gains or losses, then when does it make sense to change your allocation? This is a complex decision and your advisor can guide you through the process. However, Figure 3 provides some perspective regarding the right and wrong reasons to consider either increasing or decreasing exposure to equities. You will notice that strong economy, recession, market volatility, market losses, and insomnia do not appear on the "right reasons" list. > It is hard to remain disciplined during volatile times. Discipline, focus, persistence, and consistency are the characteristics that delineate successful long-term strategies from emotionally charged ones that often veer off course. > If you need additional perspective, feel free to contact us to discuss your allocation. If your situation has changed or you just need some hand holding regarding the appropriateness of your current allocation strategy, your advisor is available.

Figure 2

The Cycle of Market Emotions



Source: WestCore Funds, ©1998

Figure 3

The Right & Wrong Reasons to Change Your Allocation

Reasons To Consider Reducing Equities (Risk)

- Major change in lifestyle
- Major increase in annual portfolio draw (i.e., during retirement)
- Decrease in earned income
- Significant new anticipated short-term expense
- Getting older (and determining that you will likely need to spend most of your money in retirement)
- Realization that you have more than enough money and can now afford less growth
- Willingness and ability to earn lower returns over life span without running out of money
- Willingness to spend kids' inheritance to sleep better at night (less volatility)
- No fixed pension requires a higher reliance on investments
- Expectation of future inheritance or other wind fall
(Thus, you realize you can afford lower returns.)
- Major change in health

Reasons To Consider Increasing Equities (Risk)

- Decreasing reliance on ongoing portfolio draw (i.e. pension or social security kicks in)
- Need a higher return to achieve financial independence
- Need higher return to offset principal erosion from inflation and tax
- More investment experience makes you more confident and comfortable regarding risk
- Realization that you have more than enough assets. Thus, you can afford to take more risk to earn higher returns.
- A long life span (family longevity) requires your portfolio to last longer
- No fixed pension requires you to earn higher investment returns
- Desire to rely less on long-term solubility of social security
- Getting old (and realizing that many of your assets will likely pass to family or charity)
- Anticipating a future inheritance or windfall (You can afford more risk.)

The Wrong Reasons To Change Portfolio Allocation

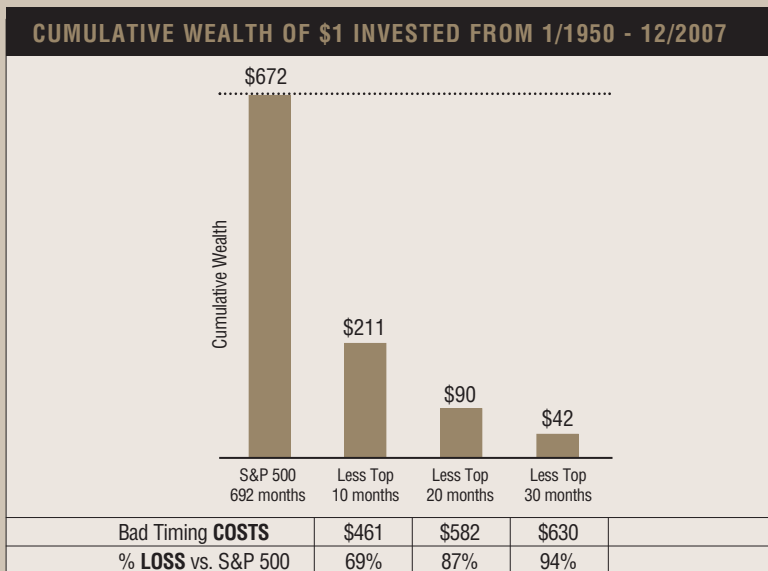
- Short-term panic (fear) or euphoria (greed)
- Afraid of losing it all
- Concerns about terrorism or world situation
- Desire to make a killing in stocks
- Worries or enthusiasm regarding economy
- Lou Dobbs or other TV commentators say so
- Peer pressure (Don't follow your friend over the cliff.)
- Recession as a result of recent economic data

BLINK

and you will miss it

If the recent market swings have caused you some unrest, you are in good company. Although you may be anxious, it is not wise to act on this emotion. You may think that selling stocks will buy relief, but the opposite is typically true. Those investors who stay the course during turbulent times reap long-term rewards. An investor who times the market—picks points to enter and exit—more often experiences significant losses compared to one who remains invested. A recent Savant study uncovered the cost of timing. A buy-and-hold investor with \$1 invested in the S&P 500 Index on Jan 1, 1950 would have accumulated \$672 by the end of 2007*. Assuming the investor decided to time the market and missed the **10 best months** (of the 692 months in the study), he would have accumulated only \$211: a drop of 69%! Had the investor missed the **top 30 months** since 1950, his wealth would have ended 94% below the buy-and-hold investor. Figure 4 illustrates the opportunity costs. Timing is very risky! And, while it would be difficult to only miss all the top months, this study illustrates that stock returns come in concentrated pockets of time. Timing markets may cause you to miss big gains.

Figure 4



Our New **SAVANT***Tips* Blog

SAVANT*Tips*

Clients often ask what “Savant” means. It is French in origin and means “a wise person or a learned scholar.” Therefore, an appropriate name for our new blog is *SAVANT**Tips*. The blog, hosted by the Rockford Register Star, covers a variety of investment, financial, lifestyle, and other topics. Some postings will discuss current events while others will convey timeless wisdom. Savant will also try to capture the thoughts and concerns on our clients’ minds and share them with all our readers. Our hope is to provide wisdom in the form of great tips and insights that will help readers maximize their assets, enhance the quality of their lives, and achieve personal and financial goals. *SAVANT**Tips* will be unique. The entire twenty member advisory team will contribute content and ideas. The Savant advisory team includes experts on investments, financial planning, tax, estate planning, philanthropy, retirement planning, insurance, asset protection, divorce planning, education planning, health and wellness, and a myriad of financial (and other) topics. Thus, the blog will cover lots of ground. To view the *SAVANT**Tips* blog, go to www.savantcapital.com/savantips.

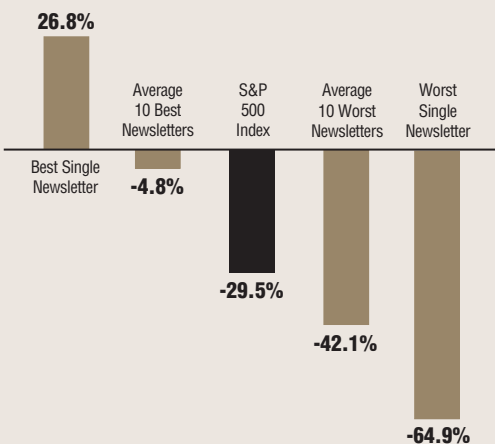
TIMING DECISIONS CAN BE COSTLY!



Hundreds of financial newsletters offer investors market timing buy/sell recommendations. Investors purchase timing newsletters so that they can avoid bad markets, invest in up markets, and “beat the market.” A recent study looked at the performance of these newsletters surrounding the Market Crash of 1987—the worst crash in history. Figure 5 demonstrates that in the short period surrounding the Market Crash, the S&P 500 index dropped 29.5% while the best single newsletter rose dramatically. On average, the best 10 newsletters were only down slightly. These facts might lead an investor to believe those market-timing newsletters are a worthwhile proposition. Readers in the very worst newsletters from 1987 may have also canceled

Figure 5

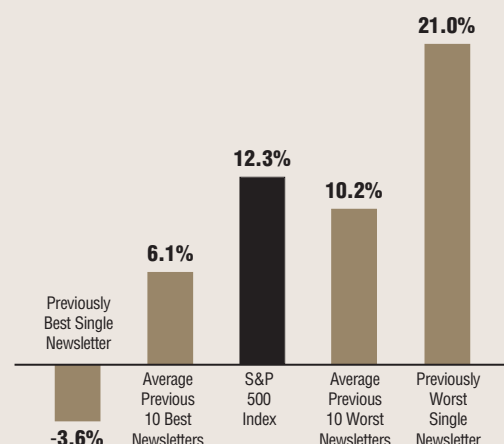
BEST & WORST SURVIVING MARKET TIMING NEWSLETTERS FROM THE 1987 CRASH (1987 Crash: 9/1/87 – 11/30/87)



their subscription. However, the short time frame can be deceiving. Of over 100 newsletters that existed in 1987, only 38 remain today. The rest performed so poorly they went out of business. Of those that remain, the newsletter with the best performance (predictions) during 1987 actually **lost** money in the twenty years after the crash. In contrast, the newsletter that did worst in 1987 actually did best, earning 21% per year during the last 20 years. Figure 6 highlights the subsequent market results of the best and worst newsletters from 1987. The truth is that the newsletters have poor prediction skills. Investors waste their time and money following their “timing” advice. A long-term buy-and-hold strategy performs better and eliminates needless cost and tax.

Figure 6

THE BEST NEWSLETTERS PERFORMED THE WORST DURING THE 20 YEARS SINCE THE CRASH (12/1/87 – 11/30/07)



Brent R. Brodeski, MBA, AIFA®, CPA, CFP®, CFA
 Thomas A. Muldowney, MSFS, CFP®, ChFC, CLU, CMP, AIF®
 Richard A. Bennett, CFP®, CFSC, AIF®
 Tracy S. Beard, CFP®
 Brian P. Conroy, CFP®
 Jody J. Jungerberg, MBA, CFS, ChFC, CFP®
 Amy L. Barrett, MBA, CFA, CFP®, CDFIA®

Tawn M. Jacobs, CPA, CFP®, MST
 John D. Schissel, QPA, CPC, CLU
 Jessica L. Knudsen, CFP®
 Tom J. Ptacin, MBA, CFP®
 Ellen K. Poppen, CPA, CMA, AIFA®
 Wendy M. Blair, CFSC
 Jerry S. Korabik, CFP®, AIFA®

Brent A. Lindell, CTFA
 Theresa Harezlak, CFP®
 Brian Knabe, MD
 Adam Larson, CFA
 Grant W. Moore, CRPC®



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