



10300 SW Greenburg Road  
Suite 115  
Portland, OR 97223

## **The Dash to Trash**

Quarterly Newsletter  
Period Ending 06-30-2009

We all know what a grim time we have had in the markets in the past year and a half. From the market highs of October 2007, the markets are now down 41%. Equities, fixed income, real-estate and commodities have all suffered. There was simply no place to hide as modern portfolio theory failed, buy and hold failed, target date funds failed, quantitative analysis and even money market funds failed.

You may recall that prior to this decline we adopted a defensive position in relation to the market. Among other things, we sold all of our financial stocks, and consumer discretionary stocks. That turned out to be prescient as financial stocks were virtually destroyed. Many small banks have failed, and the government has propped up those banks, "too big to fail", The market price of some banks was down over 90% at some points, and their dividends were slashed. Consumer stocks faltered. We never owned automotive stocks; two of the big three went bankrupt. Remarkably, Ford motor co survived following a "bet the farm" strategy. Upon taking office, the new CEO of Ford borrowed over \$28 Billion mortgaging even the Ford company logo. This turned out to be a good move as they survived as an independent company while their competitors did not.

The downturn was much deeper than expected. The collapse of Lehman Brothers in the fall of 2008 exposed the enormity of global leverage. Banks collapsed all over the world. In some countries, banks were nationalized. In the U.K., the government had about two hours to make up its mind about whether or not to nationalize a bank, and acted to do so. The ability to get money literally evaporated as banks hoarded money. Interest rates and credit spreads jumped.

Our portfolios were already defensive, and became more so. Ultimately, we liquidated our investments outside the United States, and raised cash to levels we have not had previously. We were able to outperform the markets, but like most managers, we were down on the year. I recently attended the Morningstar conference in Chicago where the keynote speakers were all down 40 to 50% - much worse than our portfolios.

Our portfolios remained in a defensive posture through January and into February but we slowly began to redeploy our cash. In March the market hit bottom and went on a tear (see my Daily Journal of Commerce column of this month), however it was not the quality stocks that saw a rise. We saw what I call the "dash to trash". Some investors saw opportunities in Banks, Homebuilders and other beaten down stocks. Many of these companies had no profits and in some cases, dim prospects, in other words unsuitable for our portfolios. Bank of America, for instance rose 66% in one week. B of A may report losses this quarter of about \$7 Billion on top of last quarters \$6 Billion. Of course we cannot invest in such companies, and we could not compete with such returns if we were to retain a suitable diversified portfolio. The result is that while we outperformed on the downside, we underperformed in the rally.

However, we underperformed because we were defensive in a rising market, and acting to protect your portfolios. Of course, we look bad, but I think we acted in your best interest. After years of out performance, you may understand our approach.

Keep in mind that markets often bottom ahead of the economic recovery. Looking back to 1900, equities have still been the best choice for real returns (past performance is still no guarantee of future results), because equities represent a share in the long-term growth of the economy. Historically, periods of recovery have followed disappointing periods. For instance, in ten year periods where returns were less than 5%, in every case, the next ten years the returns averaged 13%. Market recoveries are front loaded and explosive. Many investors have observed that you make your most money in bear markets; you just don't know it until later. In 1929, the market entered a 25-year bear market. It was 1954 before the market returned to its 1929 highs; yet if you invested \$10,000.00 on January 1 of 1929, and invested \$10,000.00 on January 1 of each year thereafter for 25 years, your portfolio would have been worth \$1.2 million even though you only invested \$260,000, because of dividends (and dividend growth) and dollar cost averaging. Today's lower prices for equities may increase your returns going forward. Once in a decade you get to buy stocks at today's prices. If the market P/E goes to 15 in the next 10 years, your returns will exceed 15%.

Trying to time the markets is not the key either. If you missed the best 30 market up days in the last 20 years, your return for that period is zero. Studies have shown that self-inflicted investor behavior is more damaging than manager behavior.

Some things to remember about Rutherford Investment Management:

We are client oriented. Our assets are all custodied away from the firm. Our returns are audited (by real auditors) according to international reporting standards. Our fees are transparent, with no hidden fees. The fees are based on assets under management and not transactions. Our investment process is transparent. All kinds of detailed information about our firm is readily available online. We are independent of large firms trying to generate income and from Wall Street with all of its conflicts. I am available to you 24/7 at 888-755-6546. If you have any questions, call me and we will talk.

Thank you for the opportunity to be of service to you.

A large part of our growth comes from referrals. We would appreciate any referrals you might make. If we grow, we can serve you even better.

Best wishes,

**William D. Rutherford, President**  
*Rutherford Investment Management LLC.*

*Information herein is believed to be reliable and has been obtained from sources believed to be reliable, but accuracy and completeness cannot be guaranteed. Opinions, estimates, and projections constitute our judgment and are subject to change without notice. Investing in stock portfolios should only be considered for long-term goals as values fluctuate in response to the activities of individual companies and general market and economic conditions. Not every investment decision or recommendation made by Advisor will be profitable. Investment involves risk and may result in losses.*