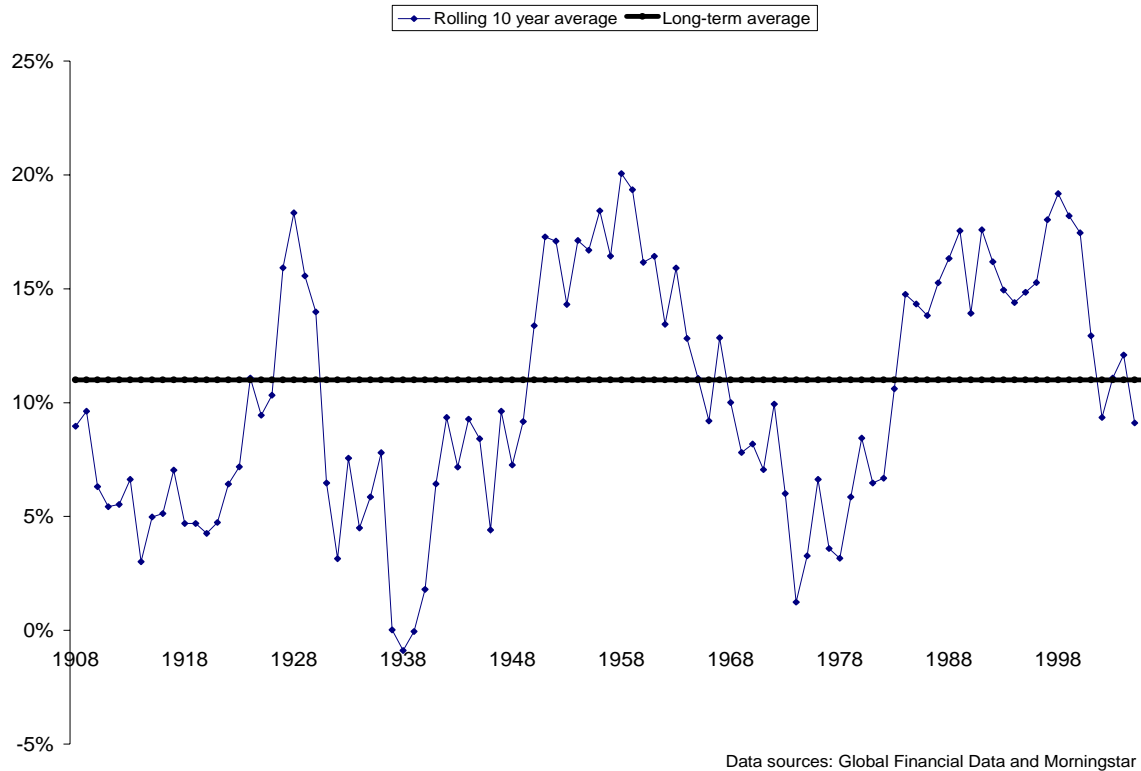


King Canute Cries

We want to benefit from the lessons of history, but historians continually argue about what actually happened and how to interpret it. Besides, how are we supposed to learn from history if we cannot even remember what we ate for breakfast? For example, a millennium ago King Canute, having conquered England, placed his throne on the beach at Thorney Island and cried out that the waves were to stop short of getting him wet. It did not work.

A nice story, but was the king demonstrating his piety by showing his courtiers the limits of regal power, or was he just insane? Both interpretations have their proponents. Was it the Thorney Island in West Sussex or London? Both claim to be the location. “Canute” is actually the anglicized version of the Norse name Knut, showing that it is not necessarily the winners who write history, but those with the best literacy and public relations. Canute’s wife’s great-grandnephew was William the Conqueror, who, near as we can make out, famously led one band of Vikings to defeat another band of Vikings and therefore capture England. For the Vikings. Again. The celebrated Bayeux Tapestry portrays William’s exploits at the battle of Hastings ... but it is actually embroidery. So, does anyone remember what was it we had for breakfast?

It is even more challenging to apply the lessons of history, such as they are, to the present, to place our recent experience in a larger context. In the chart at the top of the next page, each dot on the chart represents the previous 10-year average annual return for the S&P 500 index of large stocks. Over the last century, there have been long sweeps up and down in the market. No matter how smart or nimble you are, it makes a big difference whether you are at one of the three market tops (e.g. just before the 1929 crash and Great Depression) or at one of the low points (e.g. in 1974, when the Dow Jones Industrial Average was below 600, on its way to a high of 11,722). It is easy to say, “Buy low and sell high;” this chart demonstrates how significant it can be to do it.



Many cry in a down market that they had the wrong stocks, the wrong adviser, the wrong approach. They do not realize that the tide of the market determines the general level of their returns (everyone else's). A good adviser can improve upon the market returns, but like King Canute, no investor, manager, regulator or adviser has any long-run control over the market tide. The market going down does not make an adviser bad or stupid (although he or she *may* be bad or stupid); the market going up does not make an adviser good or a genius (although he or she *may* be good or a genius).

We enclose our annual listing of the performance of the four major asset classes: large stocks, small stocks, foreign stocks and bonds. The best performer for each of the past 40 years has a box around it. On the right are two mixes of the assets, representing aggressive and balanced diversified portfolios. The data shown are from indexes, with no assumed effect from timing or security selection. Investing in the balanced mix (60 percent in stocks and 40 percent in bonds) has had an average annual total return very similar to the S&P 500 index, while experiencing substantially less risk. We believe our chart shows that when you discern a trend, it may be about to disappear. The market already reflects your "discovery." You are late.

We cannot control the market tides any more than Canute could control the ocean tides, but if you would like help making your portfolio more seaworthy than Canute's throne, call us at 503-419-3938 or check us on the web at www.sigmainvestment.com.