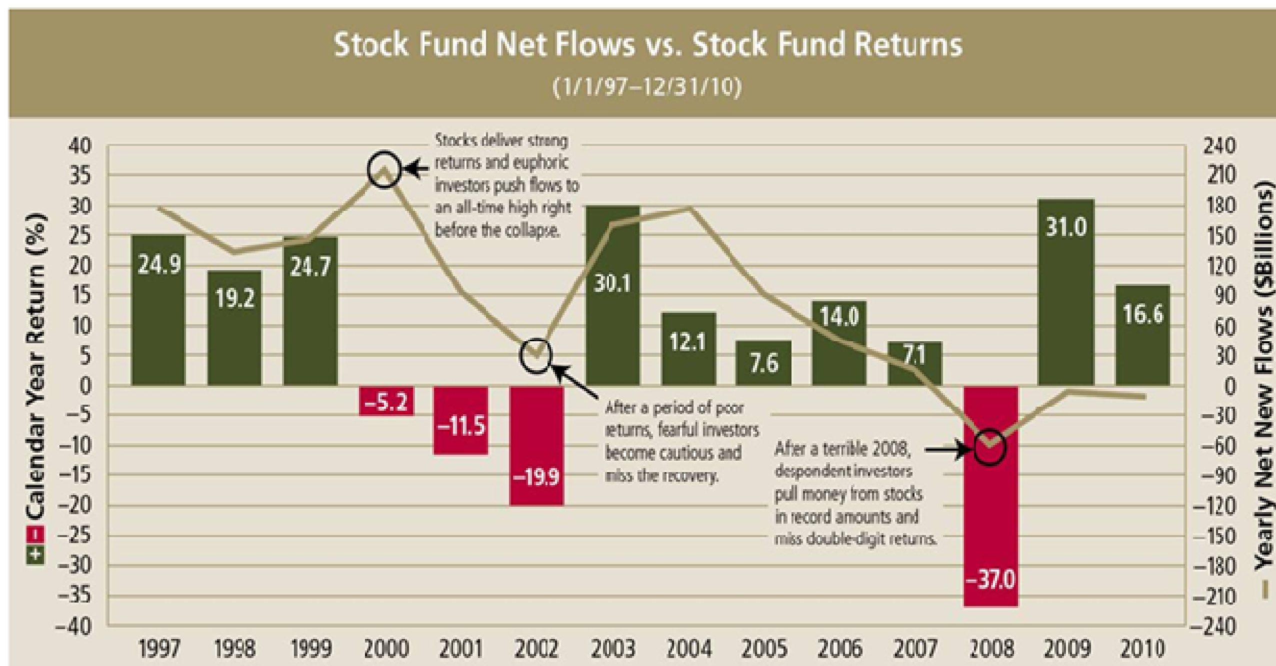
Financial well-being requires a disciplined strategy. This strategy includes not only using an appropriate asset allocation but also preventing the common mistakes that average investors tend to make on their own.

Research conducted by Davis Advisors found that the average investor's behavior does him more harm than good, mostly because it follows a cycle of fear and greed which is difficult to break without an objective, disciplined process.

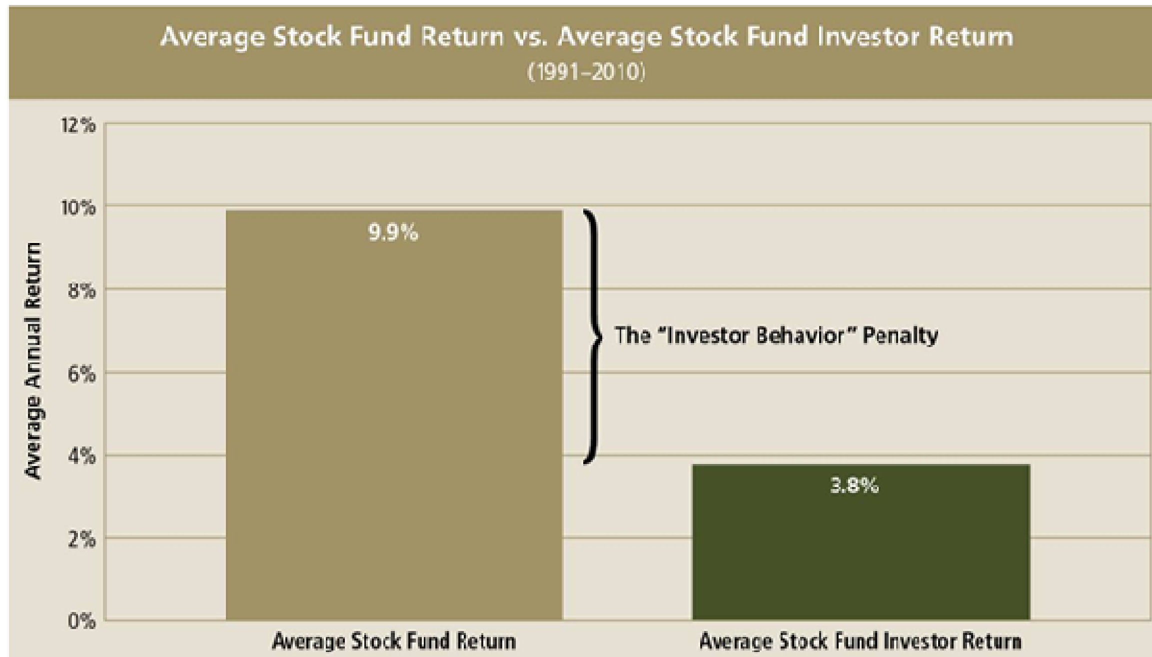
At times of extreme market conditions like we're experiencing now, it's easy for us to fall into a recency bias trap. In psychology, the recency effect is the tendency to remember more recent events or observations more vividly and give recent information more weight than historical information. Unfortunately, this recency bias could cause you to abandon your long-term strategy – hindering your ability to make rational investment decisions.

The chart below shows how investors have typically made investment decisions. The tan line tracks when cash was invested into stock funds, and when it was redeemed. It demonstrates that many investors buy due to recent positive performance and lock in losses by selling after negative performance, only to then miss a subsequent rebound.



Source: Davis Advisors

The next chart shows the result of this recency bias investment style. The average investor experiences significantly lower investment returns than the average stock fund due to essentially buying high and selling low.



Source: Davis Advisors

These charts help to emphasize why it is necessary to view investing with a long term perspective and not based on short-term market volatility.

I know it is easier said then done because each downturn seems like "this time it's different" – and that is true. The circumstances *are* different, just as they've been different for each downturn in the past. But consider this: During your lifetime, the stock market has recovered from a sharp sell-off every time.

As long as your original reason for investing is still intact, consider what you really should do with your portfolio at this time. You should either do nothing or rebalance to get your positions back to your target allocation. Don't let fear take you away from your strategy.

If you have questions or comments, feel free to contact me.

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This summary letter was compiled with information and research provided by Davis Advisors and AdvisorIntelligence.com.