



# Eight Baskets Update & Commentary

2nd Quarter 2008

*"Divide your portion to seven, or even to eight, for you do not know what misfortune may occur on the earth." King Solomon 940 B.C. Ecclesiastes 11:2*

**Steve K. Rumsey\***, MBA California Insurance License #0B60100  
 6 Venture, Suite 200, Irvine, CA 92618 (949) 727-4684 steve@optimusadvisory.com

\*Securities offered through Sammons Securities Company, LLC. Member FINRA/SIPC  
 Advisory services offered through Optimus Advisory Group, a Registered Investment Advisor.

## Irvine, CA – July 17<sup>th</sup>, 2008 – Eight Baskets Update – Custodial Accounts



**Eight Baskets diversification provides cushion during continued downturn.** To follow up on a theme mentioned last quarter, the Eight Baskets diversification process has provided some much needed downside protection. The last several months have been brutal for the global stock markets, but as you can see in the table below, there have been some places of refuge during the storm.

That's the nice thing about diversifying into areas outside the global equity markets. By not relying so heavily on equities to provide the growth within a portfolio, we're free to go outside that area for a much higher level of diversification. While most asset allocation strategies stick to three main asset classes (typically stocks, bonds and cash), we're looking at eight asset classes on a continuous basis. This high level of diversification can come to the rescue in times like these.

Another important point to remember is there are two phases to every stock market cycle: The "bull market" phase, which can be characterized by multi-year gains without a large disruption, and the "bear market" phase, which is the large disruption.

We like to refer to our phases as the "accumulation" phase and the "preservation" phase. There are times to grow the account values and there are times to preserve those values. We are currently in preservation mode. That does not mean we just sell everything and wait until the dust settles. What we try to do is take advantage ("overweight") of those asset classes that are strong and reduce the exposure ("underweight") to those areas that are weakest. Currently, that means having less in US and Foreign Stocks and more in Commodities, Precious Metals and Bonds, particularly International Bonds.

By referencing the table below, you can see that although US Stocks, Int'l Stocks and Real Estate were negative for the past 12 months, Hard Assets, Precious Metals and International Bonds were up 66.32%, 34.39% and 15.79% respectively. That is true diversification at work. Even US Bonds were up nearly 7% during the same time period, so we had five baskets up (including the Cash basket) and three baskets down.

We continue to look for opportunities in this challenging environment. With world equity markets down over 20% from their recent highs, we're anticipating a short-term market bounce to materialize very soon. As of this writing, there may be one forming right now. However, we're more interested in making sure we have a preservation mindset during market turmoil.

## 8 Baskets Diversification (Benchmarks)

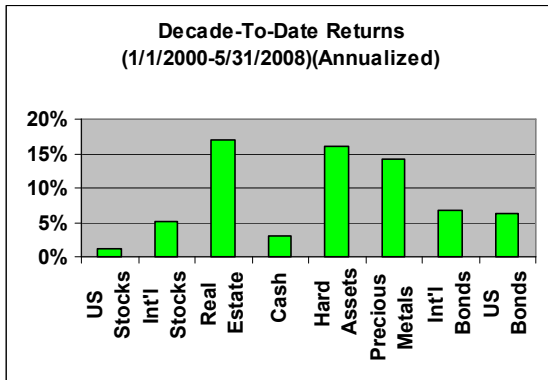
(Latest 12 Mos. & Decade-To-Date (annualized) Indices<sup>1</sup>: 05/31/2008 (Source: Thomson Financial))

Asset Index	US Stocks S&P 500 Index	Int'l Stocks MSCI EAFE Index	Real Estate NAREIT REIT: Equity Index	Cash 30 Day T- Bills	Hard Assets Goldman Sachs Commodity Index	Prec Mtls Gold: London PM	Int'l Bonds Citigroup World Gov't Bond Index	US Bonds Lehman Bros. Aggregate Bond Index
12 Mos.	-6.70%	-2.02%	-11.89%	2.80%	66.32%	34.39%	15.79%	6.90%
Decade	1.11%	5.02%	16.91%	2.95%	16.01%	14.17%	6.85%	6.34%



## 2<sup>nd</sup> Quarter Market Commentary: Talk of “Lost Decade” misses the point

**Non-Correlated Asset Classes Continue To Shine:** In the mainstream press and financial trade publications, there has been talk about the US Stock Market’s “Lost Decade.” The talk is based on the fact that if the market were to close at this level 17 months from now, we would have extremely low returns for this entire decade. This is definitely true. However, it misses the big picture.



Referring again to the 8 Baskets table, we can plainly see that there have been multiple asset classes (investment opportunities) that have greatly out-performed the US Stock Market since January 2000. Matter of fact, ALL of the asset classes listed beat the US Stock Market!

In fact, both Real Estate (commercial real estate) and Hard Assets (commodities) have enjoyed solid returns for this decade, each with annualized gains of over 15%! Even the third place asset class, Precious Metals, saw annualized gains of just north of 14%.

Diversifying into these other asset classes is the key. With stock market volatility being so high, diversification becomes even more important now than at any time in the past several years. In this

investing environment, putting all your eggs in one basket can be a very risky proposition.

The coming years are going to call for disciplined active management. The typical Wall Street “buy and hold” investment game plan will probably be pushed to the breaking point, while active risk management will prove to be a vital tool in preserving wealth. Along with that risk management, we’re looking for the Eight Baskets Portfolio to provide much needed diversification as well as providing alternative investment choices.

As we mentioned in our last newsletter, we’re currently experiencing a very challenging market environment. After years of excess credit expansion and leveraging, the financial system is making some very uncomfortable adjustments. Mortgage Finance Companies, Regional and National Banks and Global Financial Services Companies, to name a few, have been watching their stocks take enormous hits. The Federal Reserve and US Treasury have been working frantically to bring stability back into the markets. Many of their efforts seem to be paying off, but we believe we have quite a ways to go before all the financial turmoil can be put behind us. We will continue to monitor, research and make portfolio adjustments as necessary.

**As always, please let us know if you have any questions or concerns.**

Best Wishes,

Steve K. Rumsey



<sup>1</sup> Global/International investing involves special risks, such as currency fluctuation, political instability, different methods of accounting and reporting requirements. An Index is a portfolio of specific securities (common examples are the S&P, DJIA, NASDAQ), the performance of which is often used as a benchmark in judging the relative performance of certain asset classes. Indexes are unmanaged portfolios and investors cannot invest directly in an index. Past performance is not indicative of future results. S&P 500 is a common benchmark for US large-cap stocks. MSCI EAFE Index is an aggregate of 21 individual country indexes that collectively represent many of the major markets of the world. NAREIT REIT: Equity Index is comprised of REITS, which own, or have an “equity interest” in rental real estate. GSCI is a composite index of commodity sector returns. Gold: London PM is an index based on the price at the end of month close for London Gold. Citigroup World Government Bond Index is an index of bonds from 14 world government bond markets with maturities of at least one year. Lehman Brothers Aggregate Bond Index is a common bond market benchmark comprised of approximately 6,000 publicly traded bonds. Material discussed herewith is meant for general illustration and/or informational purposes only. Although the information has been gathered from sources believed to be reliable, please note that individual situations can vary. Therefore, the information should be relied upon when coordinated with individual professional advice. With any investment vehicle, past performance is not a guarantee of future results. Investors should be aware that there are risks inherent in all investments such as fluctuations in investment principal. This is particularly true for mutual funds.

An Index is a portfolio of specific securities (common examples are S&P, DJIA, NASDAQ), the performance of which is often used as a benchmark in judging the relative performance of certain asset classes. Indexes are unmanaged portfolios and investors cannot invest directly in an index. Past performance is not indicative of future results.

Investors need to be aware that no investment plan/asset allocation can eliminate the risk of fluctuating prices and uncertain returns.

Figures quoted are for illustrative purposes only and are not necessarily indicative of past or future results of any specific investment. They do not include consideration of the time value of money, inflation, fluctuation in the principal of in many instances, taxes.

Steve K. Rumsey specializes in asset allocation strategies for individual and retirement plan portfolios. An MBA graduate of Pepperdine University, Mr. Rumsey is an Investment Advisor Representative and is separately a Registered Representative with and offers securities through Sammons Securities Company, LLC, Member FINRA and SIPC. Advisory services offered through Optimus Advisory Group, a Registered Investment Advisor.