December 31st, 2008

“The Stock Market is a giant distraction from the business of investing”
--John Bogle, Founder, Vanguard Funds

2008 has mercifully come to an end. Equity investors gladly bid adieu to the worst year for US equities since 1932. US Large, US Small, International Large, International Small, and Emerging Markets stock indices all suffered declines ranging from 30% - 50%. And our globally diversified portfolios were certainly not immune to the damage.

Did our approach of investing under the guidance of an independent advisory firm using a diversified, equity-heavy, tax-efficient approach fail us in 2008? Before answering, we must consider the following:

- You have entrusted a well-capitalized, client-focused, independent investment advisory firm to manage your investments. And despite the carnage in the financial services industry, your team at DEM is still very hard at work for you. As elementary as that may sound, millions of investors have been left high and dry by advisors and brokers. Worse yet, many of the advisory firms to which they entrusted their investments no longer exist.

- We did not invest any money into esoteric, alternative, non-transparent vehicles. By contrast, clients of Bernard Madoff’s advisory firm lost 100% of their investments in an elaborate Ponzi scheme. Hundreds of pension plans, charitable endowments, and individual investors lost everything. Tragically, many of them went on to take their own lives as well.

- We did not overweight our portfolios into any single security, sector, or asset class. Imagine life today for the thousands of employees and investors who eschewed diversification in lieu of heavily concentrated positions in time tested Blue Chips like Lehman Brothers, Washington Mutual, and Bear Stearns. Many individual stocks went to $0.00 during 2008 leaving their shareholders with absolutely nothing.

- We remained fully committed to our approach. Ill-advised investors were tempted by commodities, real estate, and hedge fund investments earlier this year in an attempt to avoid stock market losses. Most of these plummeted dramatically shortly thereafter. As is typically the case, chasing recent returns made a bad situation even worse.

- We proactively contacted all of you during the most turbulent days and weeks of the financial crisis to address your concerns. Our long-term vision and constant re-assurance has kept all of you on track to achieve your goals. By contrast, advisors who allowed clients to sell shares during the ugliest weeks of November have missed out on the first 20% rebound in the markets.

- We proactively realized capital losses in our taxable accounts prior to year-end, resulting in a $3,000 tax write-off against ordinary income for most of our clients. We will continue to monitor President Elect Obama’s tax policies, and adjust our portfolios to produce the maximum after-tax returns.

Make no mistake. Despite this “good news”, the fact remains that the market is temporarily valuing our shares much lower than it did ninety one days ago. But we have not sold. Therefore, we have not converted any temporary fluctuations into permanent losses. And unlike many others, our disciplined and diversified approach will recover in due time.

Those of you heeding our recommendation to purchase additional shares are currently doing so at prices we may never again see in our lifetimes. Yes, the economy remains fragile heading into 2009. And yes, the financial crisis is far from over. But as Warren Buffet said as he was investing his entire personal fortune into equities during this quarter, if we wait for the robins to arrive, spring will be over. Fortune favors the bold.

Don Davey
Senior Portfolio Manager