



## Medley & Brown, LLC

Composite Performance\*

Average Annual Time-Weighted Returns (%)  
Period Ending August 31, 2008

	Balanced Accounts	Growth Accounts
5 Years	6.93 %	7.74 %
10 Years	6.97 %	7.12 %
15 Years	7.72 %	8.41 %

\*All client portfolios invested primarily in mutual funds with a combined allocation of less than 18% in cash and bonds are included in the Growth Composite. All client portfolios invested primarily in mutual funds with a combined allocation of 18% or more in cash and bonds are included in the Balanced Composite. Performance is net of management fees and reflects the average time-weighted return for all portfolios included in our Growth or Balanced Composite. Performance data includes reinvestment of dividends and capital gains distributions and changes in principal value. The larger a portfolio is in relation to others in the composite, the more weight its performance will have in the composite's time-weighted return. For several reasons including, but not limited to, asset allocation and investment choices, the performance of individual portfolios in the composite may vary significantly with some higher and some lower than the average. An analysis of variance is available upon request. Past performance may not be indicative of future results. Investment returns and values of client accounts fluctuate such that at any time an account's value may be worth more or less than the total payments into the account. Because accounts contain both U.S. and international securities, results will depend on both management performance and underlying market and economic conditions throughout the world.

## Medley & Brown, LLC

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#### TIM MEDLEY

President, Client Advisor; Founded Medley & Brown, LLC, 1988; Among *Worth* magazine's 250 Best Financial Advisors in America 1998 – 2002 and *Medical Economics* magazine's 150 Best Financial Advisors for Doctors; BS, Business and Accounting, University of Southern Mississippi.



#### CECIL BROWN

Vice President, Client Advisor; Joined Medley & Brown, LLC, 1995; Previously with Investek Capital Management; Chief Fiscal Officer State of Mississippi 1988-1991; Founder Tann, Brown & Russ, CPAs; Member AICPA and MSCPA; Personal Financial Specialist (PFS); MPA, The University of Texas; BA, University of Mississippi.



#### KEVIN ANTHONY

Client Advisor; Joined Medley & Brown, LLC, January 2001; Former Vice President of Finance and Chief Financial Officer Atlanta Falcons; MBA Finance and Management, Emory Business School; Woodruff Scholar, Emory University; BA Economics and Psychology, University of North Carolina at Chapel Hill.



#### JULIUS RIDGWAY

Client Advisor; Joined Medley & Brown, LLC, July 2002; Investment professional since 1999; Trustmark National Bank 1989 – 1997; Chartered Financial Analyst (CFA), Member CFA Institute, Member MS Society of Financial Analysts; M.Sc. International Accounting and Finance, London School of Economics; MBA, Millsaps College; BA, University of Mississippi.



#### EDDIE CARLISLE

Client Advisor; Joined Medley & Brown, LLC, May 2006; Watkins & Eager PLLC 2001-2006; Daniel Coker Horton & Bell, P.A. 1997-2000; LL.M. in Taxation, University of Florida; JD, Vanderbilt University; BSBA Accounting, Mississippi College.

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## Investment News

### Medley & Brown, LLC

F A L L 2 0 0 8



### Investors Should Fear Their Own Instincts

By Kevin Anthony

When stock investors experience the kind of market sell-off that we had from mid-October 2007 through mid-July 2008, they are typically gripped by **FEAR**. According to *Wikipedia.org*, "Fear is an emotional response to threats and danger...is related to the specific behaviors of escape and avoidance...is often connected to pain... is one of several basic, innate emotions." Thus, it is completely understandable why many investors' natural reaction to portfolio pain is to "get out of the market." It is simply an emotional response based on human instinct.

In many situations in life "escape and avoidance" serve people well when they experience fear. However, investing is one area where it can be quite costly. Unfortunately, many investors allow their emotions

**Typical investors have exhibited a clear pattern of buying high and selling low. What is the penalty for such behavior? An average of 1.56% per year.**

*Geoff Friesen, University of Nebraska, and Travis Sapp, Iowa State*

to control their investment decisions. For example, when the S&P 500 lost 22% in 2002, panicked investors withdrew \$28 billion from stock mutual funds.<sup>1</sup> Their timing couldn't have been worse as the S&P returned 29% in 2003 and a cumulative 50% through 2005. Predictably, *after* this sizeable appreciation, investors added \$159 billion to their stock funds in 2006.

Market timing – the attempt to move opportunistically into and out of investments – has long been a problem for investors as they often do the wrong thing at the wrong time. Typical investors have exhibited a clear pattern of buying high and selling low. What is the penalty for such behavior? An average of **1.56% per year** according to a study of equity mutual fund investors by Geoff Friesen of the University of Nebraska and Travis Sapp of Iowa State.<sup>2</sup>



1.56% might not sound like much, but think about this scenario using the Friesen/Trapp data: an investor with \$100,000 to invest in the average stock mutual fund would suffer a penalty of \$28,000 over a 10-year period because of poor in-and-out timing decisions. Ouch! Their conclusion was that "the average active fund investor [attempting market timing] substantially underperforms the growth of a dollar invested in the fund over the entire measurement period." That is, "buy-and-hold" generally beats "buy-and-sell-and-buy-and-sell".

At Medley & Brown, LLC, one of our objectives is to provide clients with above-average long-term rates of return. In this endeavor, we expend a great deal of effort in trying to identify and invest in the top mutual funds. Because of this, we are particularly alarmed by one of the findings in the Friesen/Trapp study: "...losses from poor market timing decisions likely would erase any potential gains from investing in an otherwise superior fund."

Thus, we encourage clients to consider that any value we add to long-term returns through our fund selection is probably negated by a decision to time the market in the short run. Please understand that our advice to "stay the course" in difficult times is intended to save investors from their own instincts, which are likely to prove detrimental.

P.S. As the S&P 500 has sold off 13% through the first seven months of 2008, investors have withdrawn a net \$20 billion from stock mutual funds.<sup>3</sup> Might be a sign of good things to come!

<sup>1</sup> "Bear Market Freak Out", *CNNMoney.com*, July 1, 2008.

<sup>2</sup> "Mutual Fund Flows and Investor Returns: An Empirical Examination of Fund Investor Timing Ability", *Journal of Banking & Finance*, September 2007.

<sup>3</sup> "Mutual-Fund Clients Seek Safer Investments", *The Wall Street Journal*, August 18, 2008.

## Beware of the Dangers of Inflation

By Cecil Brown

During periods of market decline, stock investors often ask themselves (and us) if they would be better off with their money in a money market account. While that option would avoid the risk of stock market declines, it presents a different and more insidious kind of risk – the risk of inflation.



Over the past 80 years, the average annual rate of inflation as measured by the Consumer Price Index has been about 3%. That doesn't sound bad, but that average masks the seriousness of the issue. Some common historical price comparisons help illustrate the problem:

- Kellogg's Corn Flakes cost 5.3¢ per oz in 1988; today they cost 25¢ per oz, a 370% increase.
- In 1988 a first class stamp cost 25¢; today it costs 42¢, a 68% increase.
- In 1986 the average annual cost at a 4-year American public university was \$3,859; by 2007 it had increased to \$12,805, a 232% increase.
- In 1988 the base Ford F-150 pick-up truck listed for \$10,834; the 2009 model starts at \$17,800, a 64% increase.
- The median price of a single family home in the U.S. rose from \$107,200 in 1994 to \$185,200 in 2004, a 73% increase.
- Gasoline cost 91¢ per gallon in 1988; heaven only knows what it costs today.

Stock market declines always drive some investors to cash, bonds or money market accounts – accounts they perceive to be “safe.” It is true that such accounts tend to be less volatile than stocks, but their average annual rates of return hover in the 2% to 5% range. If an investor is drawing an income from his/her money market account, chances are his/her purchasing power is decreasing over time because of inflation.

Some would argue that the best hedges against inflation are so-called “hard” assets – commodities - like gold, silver, grains and oil - or real estate. But the history of those assets supports a different argument. Commodities and real estate can be incredibly volatile in price. Investors who cannot stomach the ups and downs of the stock market certainly can't stand the sudden price swings in gold, silver and similar “hard” assets. Witness the recent

**Kellogg's Corn Flakes cost 5.3¢ per oz in 1988; today they cost 25¢ per oz, a 370% increase.**

volatility in commodity markets and substantial decreases in the prices of homes.

We believe in investing in common stocks – buying ownership in good businesses at reasonable prices and staying the course. Clearly, over the long term, stocks are the winners.

Consider, for example, what \$1,000 invested in each of the following asset categories on January 1, 1988, would have been worth at the end of 2007:

- The Standard & Poor's 500 basket of common stocks: \$9,307.56
- Intermediate-term government bonds: \$3,942.66
- Treasury Bills (a proxy for money market funds): \$2,411.11
- Gold: \$1,740.89

While there will be ups and downs in the market, long-term rates of return on stocks have historically offered the best combination of inflation protection and acceptable price volatility.

### John Templeton

By Tim Medley

In July, investor extraordinaire, Sir John Templeton, died at the age of 95. During the 1980s, I had the pleasure of a couple of long conversations with him, one of which was for a financial column for the *Mississippi Business Journal*. In that interview, we talked about small-cap and large-cap companies, his early ownership of Japanese stocks, real estate, the right size for mutual funds and other investment topics. As always, his thoughts were uncluttered and insightful. Here are a few:



John Templeton

*“Prices in Japan today [1989] are the greatest single danger to all financial markets.”*

*“In the long run, you'll make more money in stocks [than in bonds].”*

*“We search the world to find the lowest possible price in relation to worth [of common stocks].”*

According to news accounts, Mr. Templeton exercised daily by power-walking in the sea near his home in the Bahamas, and to be sure, this fit his investment temperament. John Templeton amassed a fortune leaning against the investment current and in his words, “buying when there is maximum pessimism.”



### Review Your Beneficiary Designations

By Eddie Carlisle

As hectic as everyday life can get, it is easy to forget about updating beneficiary designations on one's investment accounts. But advisers generally recommend an occasional review of such matters. Circumstances in anyone's life can change. Even if an accountholder has previously designated beneficiaries on an account, he or she may want to make changes to those beneficiaries, especially if the accountholder or a beneficiary has experienced a divorce, marriage, birth, or death in the family. Often, a person may think that his or her will addresses those changes. However, beneficiary designations generally take precedence over the accountholder's will.

(Note—Rather than designate beneficiaries on their investment accounts, some accountholders may wish for their accounts to pass to their estates. The decisions of whether to designate or to change beneficiaries and in

### Circumstances in anyone's life can change.

We encourage you to discuss any questions you may have with an estate planning attorney.)

Making the actual changes to beneficiary

what form to hold assets should be part of one's overall estate plan.

designations is often a fairly simple matter of filling out a form. One should carefully read the account form or application used to designate beneficiaries. Depending upon where an account is held or the type of account, the beneficiary form may allow an accountholder to specify whether a predeceased beneficiary's share should go to the other primary beneficiaries, to the accountholder's estate, or to contingent beneficiaries. Some account custodians allow an accountholder to designate beneficiaries *per stirpes*, which enables a predeceased beneficiary's share to be divided among that particular beneficiary's descendants.

Most of our clients' managed assets are held in accounts at Charles Schwab & Co., Inc. Schwab does not charge a fee for clients to add beneficiary designations to their accounts. We will be happy to help with any changes that need to be made.

**“When you are in a bear market, you think it will never end. It does.”**

— Bill Miller, Legg Mason

### In the News

■ Tim was quoted in an April 24, 2008 article of *The Wall Street Journal* regarding the reopening of Sequoia Fund.

■ In the July/August 2008 edition of *Wealth Manager* magazine, Medley and Brown, LLC was recognized as one of the nation's top wealth managers.

■ In the July 2008 issue of *Financial Advisor* magazine, Medley and Brown, LLC appeared on its “Top RIA Survey”. Managed investments were shown to be \$453 million at the end of 2007.

Susan and Julius with Ed Stuart and Margaret Prentice (middle) of RegentAtlantic Capital, LLC



### Our Recent Travels

■ In April, Kevin and Tim traveled to Baltimore, MD to the Legg Mason Investment Forum. They heard presentations from **David Nelson**, **Bill Miller** and **Robert Hagstrom** from Legg Mason Funds, **Steve Walsh** from Western Asset Funds and **Chuck Royce** from the Royce Funds, among others. In Owings Mills, MD, Kevin and Tim had a meeting with T. Rowe Price's Retirement Plan Services group.

■ In May, Tim, Kevin, Julius and Eddie traveled to Omaha, NE to the Berkshire Hathaway shareholder meeting. Along with 31,000 other shareholders, they heard **Warren Buffett** and **Charlie Munger** answer questions on a broad range of topics for five hours. While in Omaha, they met with **Justin Fuller** with Morningstar, and Julius attended Markel Corporation's annual shareholder brunch. Tim, Kevin and Eddie also traveled to New York, NY, where they attended the Sequoia Fund shareholder meeting. Senior portfolio managers **Bob Goldfarb** and **David Poppe** headlined the meeting. While in New York, they also had a meeting with **Dennis Delafield** and **Vince Sellecchia** of the Delafield Fund.

■ Also in May, Eddie attended the Longleaf Partners Funds shareholder meeting in Memphis, TN, which featured portfolio managers **Mason Hawkins** and **Staley Cates**. Tim traveled to San Francisco, CA to have a discussion with **John Osterweis** of Osterweis Capital Management and later flew to Pasadena, CA for an opportunity to hear **Charlie Munger**.

■ In June, Eddie attended the Litman/Gregory AdvisorIntelligence Conference in San Francisco, CA. He was present for a question and answer session with various investment professionals including **David Herro**, portfolio manager of Oakmark International Fund and Oakmark Global Select Fund, and **Michael Embler**, chief investment officer of the Mutual Series funds.

■ In August, Julius and Susan traveled to Chatham, NJ to meet with **Ed Stuart** and **Margaret Prentice** of RegentAtlantic Capital, LLC. In New York, NY they met with **Jonathan Brandt** and **Jon Gross** of Ruane, Cunniff & Goldfarb, managers of the Sequoia Fund, as well as **Vince Sellecchia** of the Delafield Fund.



Tim and David Nelson (left), Chairman of the Investment Policy Committee at Legg Mason Capital Management

Kevin and Robert Hagstrom (left), Portfolio Manager at Legg Mason Capital Management

