



Claremont Financial Group, Inc.
Registered Investment Adviser

Dear Valued Client,

Our move to the Defensive Strategy, on September 29th, was in response to our concern regarding the financial market structure itself and not an attempt to 'Time' the market.

Our process at CFG, Inc. is founded on the Nobel prize winning principles of Modern Portfolio Theory. The markets are constantly changing and it is important to respond to those changes as we seek to minimize risk while capitalizing on opportunities. There is a significant difference between this proven approach versus that of market timing.

The fact that we have made a tactical move to overweight treasuries and cash during this credit crisis should not be mistaken as an attempt by us to time the market, but rather to re-allocate your account. We have spent time with each of you to define your financial goals and long term objectives. We recommend a measured approach (over the next 4 to 12 months) to return you to your appropriate risk/reward profile so that you may best accomplish your long term goals and objectives.

We have attached (below) an article that describes the distinct differences of our system (tactical response) versus that of market timing.

Regarding our *re-allocation* yesterday:

We increased equities in the Wilshire Tactical Response Portfolio to a total of 40% (up from 25%) at the close of business yesterday (after the 700+ point drop in the DOW). Therefore, today was the first effective day of the new allocation (up 4.68% on the DOW).

Please read the attached article below and thank you for your support!

Best Regards,

Gaetan and Nick Scalzo

Excerpts from Minyanville:

Recently, some in the financial media have advocated selling off all of one's stocks. Any investor following that advice did save some capital as the market went considerably lower. However, investors following this "advice" have now joined a high-stress fraternity whose track record is consistently erratic over the short term and consistently wrong over the long term. Here are factors to consider:

Market timing (all in, all out, all the time) is certainly alluring. After all, if I'm certain that the world is coming to an end or, conversely, I'm certain that stocks are a screaming buy and cannot possibly go much lower, human nature says I should bet my convictions: No pussyfooting around for me.

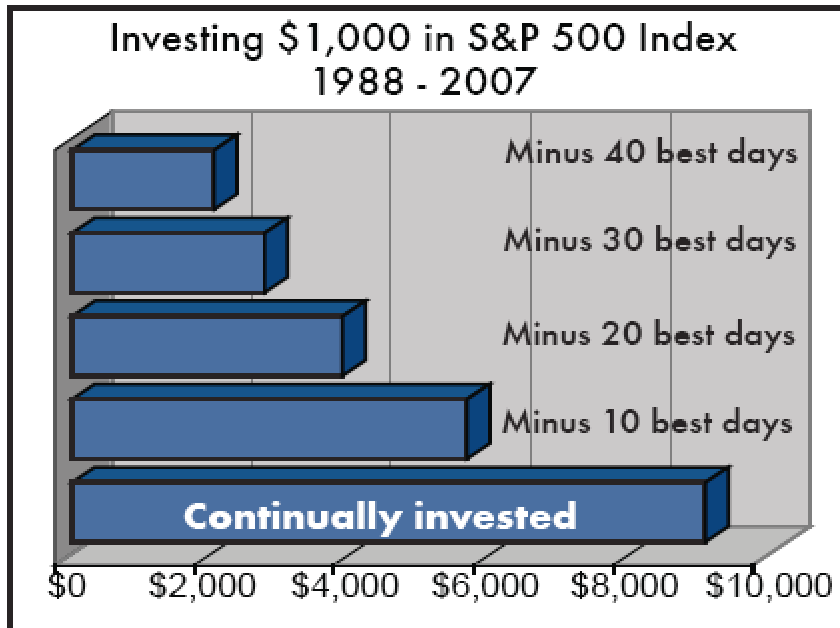
However, there's one huge problem with this: Over any measurable period other than the very short term, market timing doesn't work.

Numerous surveys and studies have shown that the percent of successful long-term market timers is right

around 0%. Granted, there may be a handful of truly gifted individuals or organizations that can repeatedly and consistently pick highs and lows with astounding accuracy with all of their funds. But they are so few and far between as to render the strategy as unworkable for just about everyone else.

There is also another aspect of market timing that should be considered: What if you miss some of the big up days? What is the effect on your performance?

As the accompanying chart from The State of Wisconsin's Investment Board shows, your investment return drops dramatically if you miss 10 or more of the best up days.



Investment Strategy Implications

Market timing is the domain of the trader, not the investor. Very short-term market timing can work if you have access to information and sit on a trading desk and can make instantaneous trading decisions that exploit a given piece of information. For example, front running a huge buying or selling program from a major mutual fund can yield above average returns. But who has such access to such situations? And, more importantly, what kind of investment style is that? All in, all out, in one or a few positions? It's something but it's sure not investing.

What are the alternatives to market timing?

There are three major approaches, two of which I strongly recommend.

Buy and hold is the "sleep at night" approach. Frankly, I do not advocate this approach as it neglects the changes of a dynamic world. Moreover, data shows that the investment returns from buy and hold (in well diversified portfolios) do not achieve the primary purpose of managing money – beating the market. Lastly, there is the real danger of falling in love with the company of the stock you are invested in. Love in both life and investing can be truly blind.

Concentrated positions is the next approach. This is the approach that Warren Buffett takes – identify highly attractive issues and hold them for as long as the company produces growth and profitability above its required returns. It's a solid approach that requires an astute sense of what constitutes excellent value and the fortitude to not be swayed by the mood of the market (except to exploit it).

...Tactical or Dynamic Shifting (CFG, Inc.)---is the third approach. This is where money is added or subtracted in stages – buying into market weakness, selling into market strength. Additionally, parameters are set for maximum and minimum exposure. A related aspect oftactical shifting is sector and style tilting – under, even, or overweighting sectors and styles as determined through investment strategy analysis. This is the approach that I use.

So, were those in financial media right when they recommended that investors get out? So far, yes. But now what? Now when to get back in? Now where to get back in (which sectors, what style, what country, which stocks)? Do you go all in or stage your way back in? And, if you're wrong in your timing, will you lose all that you have gained by missing a big up move because you are sitting on the sidelines, 100% in cash?

In my opinion, their stand on getting out may be right short-term, but for investors they're most certainly wrong long term.