Tillar-Wenstrup
Advisors, LLC

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MARKET ACTION FAVORS "LARGE AND GLOBAL"

Sometimes it takes a dramatic adjustment to bring reality back to the markets. After the worst week since 2002 investors need to take a deep breath and review the changing investment landscape. While these events have been building for some time, many have looked the other way hoping the problems would disappear.

The most significant event we are referring to are those related to the credit markets, which have become less accommodating to leveraged investment deals. Two areas we have focused on in our investment strategy bear (no pun intended) particular attention in this market shift. **Small capitalization stocks**, the primary beneficiary of easy credit over the past few years will see less capital to make deals happen. In addition, small-caps have two more strikes against them: their earnings are more domestically-focused, and valuations are extended. The bottom line is that small caps should be avoided. **Financial stocks** are another group we are underweight. They are the worst performing sector this year by a wide margin and more pain is in store. There are numerous bad loans on balance sheets of financial companies that will depress earnings for a while to come.

- **Increased Volatility Likely**
- **Credit Unwinding Favors Quality Equities**
- **Stronger Int'l Growth Favors U.S. Multinationals**

Our sector and style weightings have begun to add value in the recent "risk-shift" in the markets and our portfolios have shown significant outperformance since June 1st. Our equity portfolios are up, by an average of about 2.75% over the markets performance through the end of July.

If you have been reading our newsletters for the past year, you have seen our numerous discussions on credit excess in the housing and mortgage markets (Financials-negative) as well as the driving force of global business (Large Caps-positive). Our portfolios have benefited from these recent trends; we have virtually no exposure to small-caps and are underweighted financials. Moreover, the financials we do own are conservative. Our emphasis has been on large, globally-focused businesses with strong balance sheets and attractive valuations. These stocks have held up better during the pullback, and we suspect will lead the market on any rally.

The forces of globalization on the markets are a powerful, and we believe, lasting trend. Every earnings release reads the same: U.S. operations are a disappointment but international business is humming. Large-cap, growth stocks are most leveraged to these trends and not surprisingly are starting to outperform after years of neglect.

Regarding the direction of the market from here, the only thing we can say with confidence is that volatility will be higher than we've experienced in the last few years. While the past week was uncomfortable it came after a very powerful rally. Most investors are still nicely in the black this year.

There are several risk factors that we'll be monitoring. With the credit markets seizing up a bit the chance for some sort of financial accident increases. Current expectations for corporate profits are still high, primarily due to still strong overseas economies. If this condition reverses, stock would suffer. Profits could also suffer if the U.S. consumer retrenches more than expected due to the housing recession and a slowing domestic economy.

However, the more likely scenario is for global growth to power ahead while the U.S. muddles along. If that happens investors will bid up Blue Chip stocks with global exposure and our portfolio should do quite well.

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