

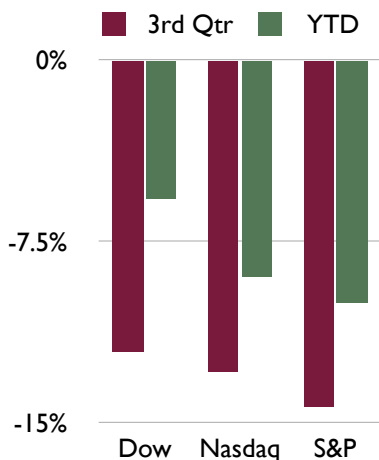
## TALKING POINTS

SELLING PRESSURE INCREASED AS THE BEARS CRASHED THE PARTY

COMPANIES STILL PROSPERING DESPITE ECONOMIC WORRIES

MARKETS HAVE MUCH ROOM TO RECOUP

ALL INDEXES POSTING NEGATIVE QUARTER RETURNS



## Patience: A Year to Learn From; A Summer to Forget

### Editors Note

Thank you for your feedback on our last newsletter. We received a tremendous amount of compliments and insight on how to make this more informational for you and we are very lucky to have so many faithful and inspiring readers. We learned you care more about our market insight and outlook going forward than about how the market performed the previous quarter. As a result, we decided to switch the layout of our newsletter to best suit you. We will continue to include the market wrap-up but further back in the newsletter, so we can place our market insight and outlook first. Thank you again for your participation and guidance!

-Mark

### Market Insight

Do you feel you have run out of patience with the current market environment? Many investors have and are tired of waiting. We're all asking the same question; *When will this thing go back up?*

A reflection on the past quarter is not an exciting one. Despite the drama, most people would like to forget it. Maybe that is a good idea, but only after we understand it. The S&P 500 posted a near 15% decline with most of the damage endured from August to September. I don't think many people would admit that going through this has been very fun. The bigger point perhaps is learning from the past quarter, well maybe the whole year. When we break down the past few years of the S&P 500, in terms of performance, we can then begin to see where we've been.

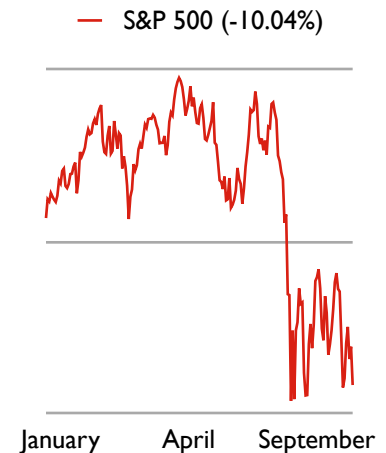
While this past performance is depressing, things can only seemingly get better from here. The overall return on the S&P 500 from December 31, 2005, to the end of the 3rd quarter 2011 is down nearly 10%, annualized at near -2% per year. Nothing to be proud of or even worth repeating, but we do have a lot of room to make up. It's possible the next 5-6 years will be much less difficult and positive.

Do not take the market's actions personally. The reality is that it takes having the vast majority of investors to get discouraged and sell out for a bear market to turn itself around. This a process called "wearing out the weak hands," which is a term market insiders use to describe investors who don't have a lot of

conviction. Any big market down move will always ratchet up the pain level especially for less-dedicated investors. The market has been waiting for the last of these weak hands to finally give up, which is to say that everyone who wants to sell has sold, and then the market can finally begin to put in a bottom. Significant market bottoms, when they finally occur, have less to do with fundamental economic and financial shifts than with climaxes of public panic. Market cycles always eventually turn, and with a huge correction under the belt, we should hopefully see profits in the near future.

Likewise, I want to make an assertion on my beliefs when it comes to success in the markets. The odds of long-term success are greater when things look their worst and conversely less when things look fantastic. Said another way, you want to be invested before things become good, not after. If we wait until things "look better," then we have missed out on a terrific opportunity. Most people want to "get out" when the markets look bad and "get in" when they look great. That mindset produces almost certain failure because they will be getting in at tops and getting out at bottoms. Most people turn bullish after the market has a run-up and turn bearish after the market has a run-down.

There's a saying in Wall Street that declares you should buy when there is blood on the streets. It is usually more profitable to buy when things look their worst rather than when they look their best. You should buy before they become good, because if you wait, it will be too late.



My point is not to convince you that getting in and out of the market is something you should do, because it certainly is not. I mean to illustrate that doing so can cause severe damage to portfolio values. The best method of long term success is long term commitment. Anything other than that increases risk of failure.

I know we've all heard people discussing how difficult things are and what they think others should do with their money. In my position, I hear it too often. When they learn I am in the wealth management business, most people tend to tell me how they have "gotten out of the market" as if they want my approval that their decision was indeed correct. My response to this statement is silence. Their decision is not correct and I feel sorry that someone was not there to keep them from making this mistake.

Nick Murray, in his essay titled, "Have You Ever Known Everybody to Be Right," gives these two insights:

- 1) Most people seem to be quite terrified by current events and are fleeing equities in droves.
- 2) I have never - not once, not ever in my 45 years as an investment professional - known most people to be right for very long. To the contrary, all my experience indicates that huge and very emotional public consensus turns out relatively soon to be wrong.

What Nick is saying is that the silent minority who does not go with the crowd usually prospers.

I'm sure some people may be wondering my feelings on the economy relative to the markets. I will never make my investment decisions, proactive as they may be, based on the overall health of the economy, who or what party is in office, my political viewpoints, the deficit, etc. Equally, I wouldn't

use these factors as a dominate evaluation of real estate either. What would I use for real estate? I would look at the most important and predictable factor of all: location. There's a reason for saying "location, location, location." The same value applies to equities, however, instead of location, it's earnings.

Take any long-term stock chart over time and you will notice the price of that security is distinctly correlated to the values of the earnings and fundamental health of that company. It doesn't follow the overall macroeconomic picture depicted by financial journalism and political whereabouts.

The current valuations of companies are equally important. To date, corporate earnings and health are strong and, in my opinion, the lower the market tails the more attractive these valuations become. My opinion is also that the lower the market goes, the greater the chances of intermediate to long-term success.

Remember that long-term success with investing is not determined by what happens in the short term, but rather an investor's faith, patience and discipline in the long-term. What happens during the 3rd quarter, 4th quarter or even 2011 in its entirety most probably will not have any significant impact when looking ahead.

We are entering a new earnings season, and it will be very interesting to see how our capitalistic enterprises are holding up. If our companies continue to show signs of strength, we could see an extremely robust 4th quarter.

## Lagniappe

When I gauge the markets, I evaluate three different factors to derive my mid-to long-term outlook. These three elements are: technical analysis, fundamental analysis and sentiment or overall public confidence. Using these three components help me

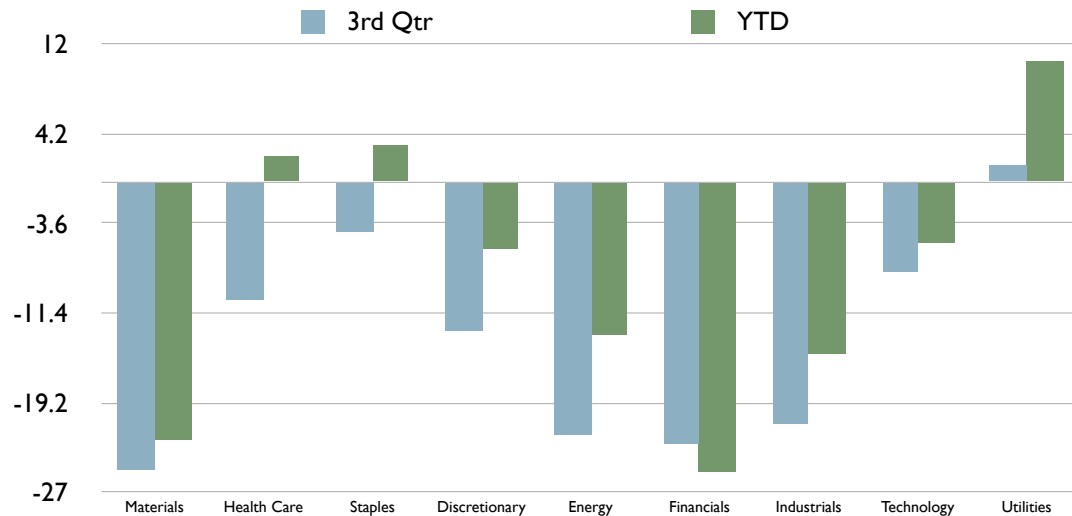
## HUMOR OF THE DAY



evaluate the magnitude of factors and create, in my opinion, a barometer to increase the odds of success.

I measure the market technically to compare it against many factors and to evaluate its strength using trending analysis. Then, I turn my attention to the fundamentals of the market and the state of leading companies. I evaluate their intrinsic values and determine if their stock prices are selling at bargains or premiums. Lastly, I focus on the overall confidence level of investors, or perceived outlook. My conclusion is usually opposite of what the indicators are suggesting, since people tend to turn negative AFTER down moves and optimistic AFTER up moves. I tend to become optimistic during and after down periods and pessimistic during and after up periods. I then use the conclusions from these three factors to quantify my overall outlook.

Considering the current market environment and looking ahead, I am very bullish, or optimistic. Technically speaking, the markets have been consolidating for quite some time and are far from extended to the upside. Fundamentally speaking, corporations have been producing goods and services with much success and are trading well below their market prices. Also from a fundamental standpoint, stocks are at a bargain. Finally, confidence



## MARKET SECTORS

MOST SECTORS ARE PERFORMED POORLY. NO PLACE TO HIDE.

ALL SECTORS WERE NEGATIVE FOR QUARTER EXCEPT UTILITIES

MATERIALS, ENERGY, FINANCIALS AND INDUSTRIALS GAVE UP MOST GROUND.

and sentiment are at extremely low levels. In fact, the University of Michigan reported in August the worse sentiment in the past 30 years. This pullback has occurred mainly out of fear and panic rather than weakness among leading enterprises.

While I'm not throwing tons of cash at the market, I do see good news in our future. Our last newsletter focused on "when." Obviously, we aren't there yet and no one can tell when that will happen, but I feel we are primed to have significant success going forward.

### Market Wrap-Up

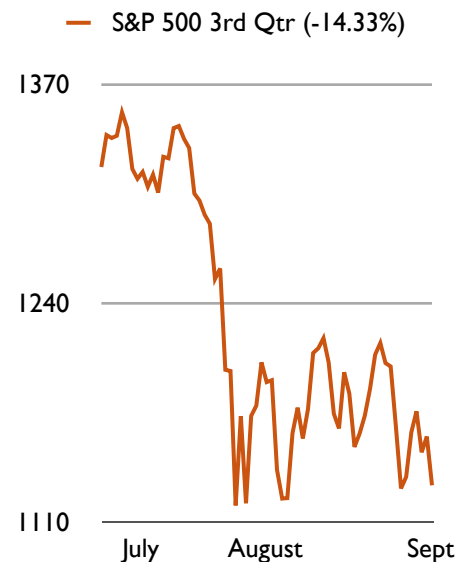
Investors hoping to have a relaxing summer were deeply disappointed in the third quarter. What have historically been quiet summer months were anything but. As Morningstar's Bob Johnson puts it, "the economy remains stuck in neutral." Job growth is anemic, at best, the housing market remains stuck, and manufacturing data showed some weakness as well. Between worries of global growth to the resolution of the U.S. debt ceiling debate, it has been difficult to look beyond the negative headlines. Stocks have lost ground in almost every style; however, the fall in overall prices has also left many stocks looking attractive.

The headlines screamed "Worst Quarter since 2009." The Dow, NASDAQ and S&P fell 12%, 13% and 14%, respectively, while most international indexes fared even worse, falling nearly 20%. In commodities and currencies, it was a mixed quarter. The dollar lost 4.6% to the yen, but it gained 7.7% to the euro. Silver fell 13.7%, but gold rose 7.6%. The benchmark 10-year Treasury bond yield fell to 1.929%, less than the yield on the S&P 500.

On the other hand, consumer spending remained surprisingly resilient, and inflation stayed largely in check. Corporations continued to report decent earnings in the quarter. Belt-tightening during the peak of the recession left firms with lean cost structures and helped keep profitability high even in the face of relatively weak domestic demand.

The other marvelous statistic to emerge from the recent panic is that during the month of August insiders (company officers and directors) spent even more of their own money buying their own stocks than they did at the bottom in March 2009. The number of insider buying was up 20%. When a director spends substantial money – as the masses fall all over themselves getting out – we should probably pay attention.

Overall, the third quarter was disappointing, but earnings season will begin soon. Wall Street ignored great second quarter earnings, but it can't ignore positive sales and earnings forever. Earnings are in a bull market, so we should see a positive final quarter.



## Patience

We decided “patience” would be a major theme of this newsletter, because it's been one of those years that really boils down to needing a lot of it if you want to be successful. How much patience do you need? We tell people that the three most important traits to have in order to be successful with investing are faith, patience and discipline. As we speak, many investors are losing patience and are exhausted. They are tired of waiting for the eventual positive move up in the market and are looking at different options. This is probably an appropriate time to point out one of the most alarming statistics when it comes to investing. The average return of the markets over time is about 10%, while the average return of investors who invest in the market is about 3%. The simple reason investors fail to make as much as the market is largely due to them running out of patience during times like these.

This certainly has been one of those years where we've gone full circle. We need to keep things in perspective and realize this is all part of the process. What it really takes on our part is a ton of patience, and just when you think you've run out, you'll need to dig deep to find more. Historically, it's been impossible to lose money in the equities markets over time. Take any long-term period and you'll notice you haven't lost money, using a properly diversified portfolio, unless you quit.

Another point to consider is that we are very deep, time wise, in this cycle. It's important to make sure we don't stick our heads in the sand. The American Funds completed a study, which I have used many times this year, titled; “After decline, recoveries have followed.” It evaluated recoveries after significant declines and concluded that the average annual 5-year return following a decline is 18.95%. This study also shows that during these recoveries, 83% of the years are up and 17% are down. Essentially, it needs to be understood that down years can happen during recoveries. I'm not saying that 2011 will definitely be down, but right now it is, and that's normal.

## In Conclusion

Is our economy going through a difficult time? I assume that every reader would say yes. Has our country gone through difficult times before and eventually prospered? I assume the answer to this would also be yes. No matter how difficult things have been, we've been here before. The exact circumstances and details may not be identical but disastrous times have come and gone and we have survived.

I know I'm starting to sound like a broken record, but the point is so important. Making rash or reactive decisions based on current events is disastrous to the eventual performance of your investments. There is no one, and I repeat no one, who can consistently predict the moves of the

markets. Averting from a predetermined plan is essentially throwing in the towel.

Getting back to our newsletter title, just because things may look bad right now doesn't mean they will stay that way. The 3rd quarter was extremely frustrating but one to forget about and move on from. There's nothing that can be done about it now, and making a reactive decision would almost certainly guarantee a mistake. The year 2011, which is only 75% complete, can teach us a great lesson if we let it. That lesson is that even during market recoveries, there are still difficult years and the road isn't always easy. Investing is certainly a difficult and trying effort, but those who are strong, dedicated and muster up all the patience they've got will succeed.

Helping you become a better investor,

-Mark Simmons



## Timely Quotes

*“Sure, you fight, but by staying relaxed, at peace, not frustrated or angry. I see this now in how I conduct my life. I'm more relaxed, less combative. You deal with what's in front of you. You let things come to you. It's not often you can force a shot and have it work out. You take what the game gives you, even if it's one of those days where you can't tell if you hit it off the hosel or the toe. And you take what life gives you, rather than fighting, resisting it. Just move forward. You get another hole, and you get another day.”*

**-Actor Michael Douglas being interviewed by Golf Magazine and discussing his cancer experience.**



## Inquires & Explanations

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### ***How often do you publish the Simmons Street Newsletter?***

Our goal is to provide the newsletter to our clients and associates at least once a quarter. It is our plan, however, to publish the newsletter more frequently, such as monthly, or if we feel there are events that warrant explanations or updates.

### ***What is the purpose of the newsletter? Why are you publishing this?***

Our goal is to provide investors unbiased educational information regarding the markets. Furthermore, we understand that investors find it difficult in their time-crunched day to stay abreast of economic and investment related news to adequately stay informed. In addition, many investors have trouble finding information that isn't laced with propaganda or sales pitches. The purpose of the Simmons Street Newsletter is to provide a solution to that problem. We feel that in 5 minutes or less any individual can read this newsletter and become informed with what is going on in the markets.

### ***Is the Simmons Street Newsletter free?***

Yes! We do not sell this newsletter. It is free of charge.

### ***Can I distribute the Simmons Street Newsletter to other people I feel can benefit from it?***

Absolutely!! In fact we encourage you to send this to anyone you feel could profit from it.

### ***I don't understand, why do you take the time to create a newsletter for free?***

The goal of Simmons Asset Management is to provide investors with educational information so they can become more informed about their financial situation. Our number one priority is to help people. Our belief is that if we succeed in our goal of helping people our firm will subsequently succeed.

### ***What should I do if I have more questions?***

Give us a call or shoot us an email! We love talking about the markets and investment related information. In addition, feel free to peruse our website at [www.SimmonsStrategy.com](http://www.SimmonsStrategy.com). We also post occasional blogs and post news items and other resources that we feel will be beneficial to investors.

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