



No Man Is an Island

In *Meditation XVII*, English poet John Donne wrote, “No man is an island, entire of itself; every man is a piece of the continent, a part of the main.” Whether a citizen of a country, a resident of a community, or even a member of a family, we are part of something greater—a collective whose individual elements are sacred.

The financial system in the United States—the greatest and strongest in the world—also is a continent of sorts that encompasses businesses, including the stock exchanges, investment banks and credit markets, which collaborate and work together as a whole. Each entity may appear separate, but they are dependent on one another to function properly as well as profitably. In particular, think of the mortgage area of our credit markets. It is a component of the main financial system that provides us with capital for our homes and businesses. Any part of the credit market that becomes obstructed or dysfunctional diminishes the whole financial system and affects a multitude of lenders and borrowers. If interest rates start to rise, for example, the cost of adjustable rate mortgages may increase in yield and subsequently raise the monthly payment for the mortgage holder. If some borrowers fail to pay and default on their mortgages, not only would it affect the bank holding the loan, but also property values could decline and adversely affect prices of real estate in the neighborhoods in which we live.

As members invested in the financial markets, the question is what is our part of the whole? Our Native American Indians expressed it so well: “No tree has branches so foolish as to fight among themselves.” The financial decisions we make affect many of those around us. Their impact can be minimal or cost billions of dollars. Unfortunately, rogue financiers like Bernard Madoff—seemingly an island unto himself—through treachery and greed inflicted enormous harm on thousands of innocent investors and left many of them almost penniless and less than whole. His story is a frightening example of diminishing the oneness and unity of our fellow man. Whether we agree with this or not, we are all in this together and need to share the same values, especially when it comes to investments.

In his inaugural address, John F. Kennedy inspired us when he said, “. . . ask not what your country can do for you—ask what you can do for your country.” Similarly, President Obama in his address asked us to take responsibility for our actions. Both men were reminding us that we are a “part of the main,” not separate individuals or “islands.” They were encouraging us to be more

REGISTERED INVESTMENT ADVISOR

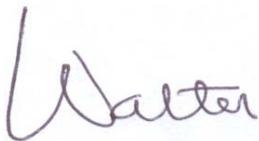
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proactive and to seek opportunity in adversity. This is no easy task. There will be difficult moments when we question ourselves—when we wonder if we have made the right decisions.

Many of you have expressed concern about the decline in value of your investments. You wonder how long it will take for your portfolios to recover as each day the media mavens continue to bombard us with negative news. The answer lies in looking ahead to the end of the current slowdown and making the necessary changes to our investments. During periods of slow growth, companies cut back on expenses, reduce their work force, and essentially scale down in size. When the economy begins to recover, they will emerge from a recession leaner and meaner and ultimately reward patient investors with increased earnings and higher stock prices.

We are presently rebalancing our portfolios to reflect this recovery by increasing our allocations to the asset classes that historically have performed well when economies emerge from a recession. This means increasing our weighting in small stock funds whose earnings are more sensitive to increased economic growth than larger stock funds. This can also be said of investment grade corporate bonds whose prices may increase in value with improvement in cash flow and corporate balance sheets. If we take action together and concentrate on the steps necessary to improve our portfolios, it will be easier to cope with the negative aspects of the current downturn.

I ask that you continue to have faith in what we can do together. While some of you may feel as though you are that island, know that you are not alone. While some of you I have known for over twenty-five years and have become close friends with and others are more recent clients, I am committed to serving all of you, and our goal is to do so through the investment allocation in our portfolios. The investment approach is sound and has been back-tested 35 years. In time the world will not seem so uncertain. Corporate earnings will eventually improve, and stocks have the capability of recovering before the recession fully ends. As the economy grows stronger, John Donne's message of unity will ultimately bear the fruit of our endeavor together.



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