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the official newsletter of sigma investment counselors

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A Year End Message

From Bob Bilkie, President and CEO of Sigma Investment Counselors

On behalf of the entire staff at Sigma Investment Counselors, I would like to extend to all our very best wishes for a happy holiday season. As my colleague Denise Farkas indicates below, the financial markets were anything but docile in 2007. Nonetheless, as of this writing, our investment returns on a firm-wide basis appear solid, and for this, we are grateful.

We recently sent out our annual holiday greeting card and did something a little different from our normal

format by including a photograph of every member of our firm. I received many calls and emails, congratulating us on how nice looking and creative the card was. Another common refrain was how nice it was to see the entire team.

As we have previously discussed, Sigma's success is truly a team effort. And I am particularly proud of our team as I look back on the last 12 months and reflect on many of our significant accomplishments. For example, we hired a new Chief Investment

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Officer, Denise Farkas, CFA, to oversee our investment management process. Denise introduced a more structured and deliberative approach to our security selection, and we have been pleased with her results. We also hired a bright young man, Christopher Frayne, who recently graduated magna cum laude from the University of Michigan. Chris brings an eagerness, energy and zeal to all he does, whether it is work related or training for his next marathon. His computer skills are also greatly appreciated! Chris is also studying for the first of three CFA exams that will be administered this June. Finally, we are in the process of hiring an Operations Manager. We hope to have more information to share with you shortly regarding this new individual and position.

We have also upgraded our trading platform, phone

and computer systems to enhance our firm's infrastructure. These upgrades in processing, hardware and software should allow us to improve our ability to serve our clients, yet the migration and installation of these changes can be disruptive to the business if not properly managed. While life became challenging at times, we did not encounter any serious breakdowns in our service, and I credit our outstanding administrative staff for managing the transition.

In sum, I am pleased with the progress this year and excited for the future. We do not lose sight of the fact that our collective efforts are devoted purely to meeting the needs of you, our clients. It is our privilege to be chosen to serve you, and we do not take our responsibilities lightly. Thank you and again, happy holidays.

The Trend Can Be Your Friend

Recently, the weekly business periodical Barron's published an article by Dick Davies titled "Major Trends Just Keep Going and Going." The article underscored the importance of a long-term focus when investing. To paraphrase, the author warns of investors being too quick to buy or sell on perceived trends and notes that investors should keep a focus on the implications of trends over the long term. Davies points out an investment advisor's job is to forecast change and when that change may occur so that it can be capitalized upon for the benefit of clients. He notes one of the complexities in such predictions is that well entrenched trends are difficult to reverse and that "at any given time, the odds favor a trend that is in force remaining in force."

As regular readers of this missive are aware, we share Mr. Davis's perspective about focus on the long-term. We note, as does the author, that a long-term approach is often in direct conflict with today's

markets, which are in a constant state of flux and possess a seemingly myopic focus on the short term. On any given day the long-term strategy can be called into question based on that day's events. However, success in navigating the markets over the past year was achieved by correctly identifying economic trends and effectively implementing a strategy that capitalized on such trends. These trends embrace themes we articulated earlier in the year including the benefits of exposure to international economies, the declining dollar, and exposure to the energy industry. For example, the technology and industrial sectors have a significant portion of international earnings exposure either through exports or foreign subsidiaries. These sectors are among those that have outperformed the S&P 500 benchmark this year.

Our analysis identified some directional change in trends as well. The eight-year outperformance of domestic small cap stocks relative to their large cap

brethren led to an overvaluation of small versus large cap stocks. We believed that valuation disparity to be unsustainable. Year to date large cap stocks have significantly out-performed smaller stocks, a trend we expect to continue in 2008. In addition, while we could have never predicted the reasons or circumstances that led to the reversion to a more normal yield curve, our assessment that an inverted yield curve was unsustainable was accurate.

What we did not anticipate was the sudden and cosmic shift of the mortgage markets, banking industry and fixed income markets that led to the market turmoil. In 2007 the market has seen not one, but two market declines in the range of 10%. And, at the time of this writing, 73 days thus far in 2007 have had movements of greater than 100 points, versus an average of 37 days for the last three years. Focusing on the short term in such an environment would have proven to be a difficult and chaotic investment strategy in 2007 with high turnover in the portfolio and a likely case of whiplash.

Investing is a continuous process. However, the end of the year provides an opportunity to reflect and learn from what has transpired. This allows us to better access what trends in the economy and markets we expect to continue, what trends we anticipate may change during the coming year, and ultimately how that might impact portfolio holdings and investment strategy.

Clearly, lending, investment and derivative activities that were focused on the mortgage markets were the dominating factors in both the equity and fixed income markets for most of the year. The complex nature of structured products and derivatives, which emanated from bundled mortgage products in the U.S., created a financial crisis that extended across the globe. In an investment world that has little patience and demands instant answers, it is clear that the answer to "how bad is it?" will likely require the better part of the next six to nine months before real

answers to those questions can be quantified. We believe that when those answers are available, it will indicate that amidst the turmoil, (the current environment) there are always attractive investment opportunities.

Stresses caused by the real estate and mortgage markets combined with rising oil prices and other commodity prices progressively weighed more heavily on the financial and consumer discretionary sectors as we moved through 2007. We expect many of these trends to continue into 2008, resulting in our continued cautious stance on consumer discretionary stocks. An under weight in bank stocks served portfolios well in 2007. At current levels there appears to us to be some opportunities where investor concerns have been overdone. Growth stocks, which out-performed value stocks by a wide margin in 2007, should continue to do well in 2008. Heading into 2008 we also expect that the trend of a weaker dollar, while not as dramatic a move, will continue. We anticipate higher economic growth rates in foreign markets versus the U.S., as well as continued weakness in the dollar, to continue to provide attractive opportunities in multinational companies and overseas investments.

For now, the Federal Reserve remains more concerned about sustaining economic growth than curtailing inflation. Therefore, we expect Federal Fund rate reductions will continue into 2008. In addition, the longer end of the yield curve is at the lower end of its range and the spread between short and long term rates remains narrow. We believe the spread will revert toward a more normal spread in 2008 as short-term rates decline and longer-term rates are recalibrated as investors reevaluate inflation expectations.

As we often say, the market abhors uncertainty. We view the past several months as a uniquely uncertain time. As we look forward to 2008, the passage of time, combined with rate actions by the Federal

local independent personal accessible
interactive creative local independent personal
knowledgeable thoughtful ethical experienced

Reserve and other government bodies, should help to resolve this uncertainty over the coming year. In turn, this should provide answers and a more positive sentiment for investors. Offsetting factors include declining earnings estimates by analysts and pressure on consumers, which represent two-thirds of our economy. While the data has yet to provide confirmation, we believe a slower growth environment that many are predicting for 2008 is already upon us. Many of the economic underpinnings that have been the foundation for the economy continue to exist which is why we do not anticipate a recession. In such an environment we continue to seek out companies demonstrating an ability to effectively

steward the assets entrusted to them through both growth and improving levels of corporate profitability.

The end of the year provides us an opportunity to thank you, our clients and other members of the Sigma Investment Counselors community, for your support and trust over the past year. We appreciate your confidence in our firm and our services. We wish you and your families a very happy holiday season and a wonderful and healthy New Year.

Denise Farkas, CFA
Chief Investment Officer

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Sigma Investment Counselors is pleased to provide a copy, and hereby offers to deliver the brochure to any client upon receipt of your written request.

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Please remember to contact Sigma Investment Counselors if there are any changes in your financial situation or investment objectives.