

GURUN*Report*

A timely message from GURUN INVESTMENT ADVISORS, INC. for its valued clients

Why Market Timing is Not a Long-term Strategy

Market Timing is defined as a strategy to move in and out of the stock market in an attempt to predict future price movements based on perceived economic, fundamental and/or technical trends.

The temptation to time the market is an understandable short-term response to volatile markets. The reality is that monitoring your financial assets every day exacts a high emotional cost for marginal, if any, financial benefit. Only a small fraction of professional investors possess the ability, nerves and instinct to consistently make money timing the market. Moving in and out of the market also fails to take into account the negative impact of capital gains taxes and trading costs.

A study conducted by Capital Research and Management (sponsor of The American Funds) underpins the reason to avoid market timing and remain fully invested. If you were fully invested in the S&P 500 for the 10-year period ending December 31, 2006, a \$10,000 initial investment would have grown to \$19,147 for an average annual price return of 6.7%...not spectacular but attractive when factoring in the impact of compounding dividends. However, if you missed the 10 best days for the stock market over the same 10-year period, the



value of the initial \$10,000 investment would be only \$11,937 or annual price return of 1.8%. Miss the 20 or 30 best days and the value of the initial investment declines 17.8% to \$8,224 and 41% to \$5,902, respectively. Since none of the 10 best days were consecutive, four of the best days were in one year, and in five of the 10 years, there were no best days, the only strategy that ensures capturing the

best days is to remain fully invested for the entire period.

At Gurun Investment Advisors, we adhere to the fully invested concept for our clients by balancing the assets, selecting high quality common stocks and minimizing portfolio turnover rate. The most powerful asset for investors is time and the ability to compound returns.

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This issue of the

GURUNReport

has been prepared by

Gurun Investment Advisors

to help you understand and achieve your long-term financial objectives via conservative investment management.

GURUNSPEAK

An Investment Glossary

Subprime Mortgage

A subprime mortgage is granted to borrowers whose credit history is not sufficient to obtain a conventional mortgage. Lenders charge a higher interest rate to compensate for potential losses from customers who may run into trouble or default. Such financing mechanisms as “subprime mortgage” lending has led to a speculative bubble in the residential real estate markets. This has resulted in a liquidity crisis in the financial sector.

Structured Investment Vehicles (SIV)

An SIV is a limited purpose operating company that engages in market arbitrage by issuing short-term securities at a low interest rate and using the proceeds to buy higher yielding, longer-term instruments such as asset-backed and mortgage-backed securities. Well-publicized problems have occurred because the liquidity crunch hindered the SIV’s ability to issue short-term debt and the value of their longer-term investments declined.

Rating Agencies

A credit rating agency assigns ratings for issuers of certain types of debt obligations by measuring the issuers’ creditworthiness and ability to pay back the loan. The rating assigned by the rating agency impacts the interest rate applied to the loan. Many institutional investors were attracted to high yields offered by complex derivative obligations rated “AAA” only to subsequently learn the credit quality of the underlying assets deteriorated materially.

Gurun Investment Rule #4

The only thing predictable about tomorrow is tomorrow’s events are unpredictable.

Executive Profile

Rich Beattie

Rich Beattie joined Gurun Investment Advisors, Inc. in August 2005 and is responsible for office operations, business development, and client relations. Rich received his BBA in Finance from Southern Methodist University and began his career as a financial analyst in the oil industry. Since then, he has held management and sales positions in the educational book and employee relations industries.

Rich has known John Gurun and David Gurun for over forty years and looks forward to the next forty.



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The phrase “random walk” popularized by Princeton Economist Burton Malkiel, best explains why market timing is not a successful long-term investment strategy... stock prices move in random,

unpredictable short-term patterns.

If it really matters to you what the market does in the next several months you probably shouldn’t own common stocks.

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GURUN Conservative Investment Management
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