

Greg Feirman

From: Greg Feirman [gfeirman@topgunfp.com]
Sent: Sunday, October 12, 2008 3:53 PM
To: gfeirman@topgunfp.com
Subject: Top Gun FP Client Note: Worst Week Ever

If you can keep your head when all about you
 Are losing theirs and blaming it on you,
 If you can trust yourself when all men doubt you
 But make allowance for their doubting too,

- "If", Rudyard Kipling (<http://www.swarthmore.edu/~apreset1/docs/if.html>)

The time of maximum pessimism is the best time to buy.

– Legendary Investor John Templeton

The S&P 500 lost 200 points (18.2%) last week. ***The Dow Jones Industrial Average dropped 1874 points (18.2%) – the worst percentage decline in its 112 year history.*** On Friday, 2901 out of 3306 stocks traded on the NYSE closed at 52 week lows. Volume on the Big Board was ginormous. 871.5 million shares of the popular S&P 500 ETF (SPY) traded hands – an all time record. The Fear Index (VIX) surged towards 77 - 30 generally signifies substantial fear.

The front page of this weekend's *Wall Street Journal* screams: "Wild Day Caps Worst Week Ever For Stocks". Comparisons to The Great Depression are rampant in the media.

If you ever wanted to know what a stock market crash looks and feels like, now you know.

In times like these, it can be difficult to keep your emotions in check and maintain the proper perspective. History repeatedly shows that the time to sell is when things seem best and the time to buy is when they seem worst. ***If ever there was a moment of maximum pessimism in the stock market, this is it.***

They say a picture is worth a thousand words and the guys at BeSpoke Investment Group have a way of creating charts that prove this to be true in the stock market as well. Most of you have probably seen that image that can look like an old lady and a young lady. In a post Friday evening, the BeSpoke guys put up an inverse chart of the S&P 500 over the last year that is worth a thousand words. I want everybody to click on this link and read the post: <http://bespokeinvest.typepad.com/bespoke/2008/10/market-perspect.html>.

If you'd sell that stock which has a chart that looks amazingly similar to the Nasdaq from 1998 to 2000, then the case for buying stocks now is just as compelling.

I'm not the only one who sees the recent carnage as the buying opportunity of a lifetime. Many of the best investors in the world agree.

Ken Heebner, manager of the CGM Focus Fund, who I believe to be the greatest mutual fund manager in the world today, was quoted in a front page article in today's New York Times saying: ***"The fact is, there are a lot of tremendous bargains out there."*** In the same article, legendary value investor Marty Whitman, who has more than 50 years of investing experience, said: ***"This is the opportunity of a lifetime"*** ("Those With a Sense of History May Find It's Time to Invest", *The New York Times*, Sunday October 12, A1: <http://www.nytimes.com/2008/10/12/business/12stox.html?em>).

On Tuesday afternoon, Southeastern Asset Management, manager of the Longleaf mutual funds, one of the truly great value mutual fund companies, held a conference call to discuss the impact of the recent market turmoil on their portfolios. While listening to Stanley Cates make the case for three large Longleaf holdings (Dell, Direct TV, Chesapeake Energy – Top Gun bought Chesapeake Energy on Friday before listening to this call for the same fundamental reasons), I was completely convinced that the market has far overshot the intrinsic value of these great companies and that Cates's conviction in them is entirely justified. I am just as convinced that the same kind of argument can be made for some of Top Gun's high quality, blue chip holdings: eBay (also a Longleaf holding), Comcast, McKesson and others. You can listen to the conference call here: <http://www.longleafpartners.com/news/q308concall.cfm>.

I wouldn't go as far as Warren Buffett who at the bottom of the 1973-74 bear market told Forbes magazine that he felt "like an oversexed guy in a whorehouse". But I am pretty excited ;)

Scotttrade recently put up September statements and I've updated our performance through the end of the third quarter of 2008. The performance chart is attached.

The first eight days of October have been tough for us too, but I feel as confident as I ever have in the massive, pent up, intrinsic value of our holdings.

Here's how the week looked:

S&P 500: -18.20%

Wilshire 5000: -18.00%

Top Gun: -8.66%

And Year-To-Date:

S&P 500: -38.76%

Wilshire 5000: -38.45%

Top Gun: +6.46%

I hope everybody is hanging in there okay. As always, I'm only an e-mail or phone call away.

Best,

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