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Wealth report

Mariner Wealth Advisors, LLC

Fourth Quarter 2007

For the fourth quarter, commodity prices moved sharply higher—as they did over the full year—and emerging markets equities and currencies continued their advance.

Value continued to underperform growth in the fourth quarter...small-caps continued to lag large-caps...REITs' collapse intensified.

It is not a foregone conclusion that the negatives will drag the economy into a recession, though some slowdown seems quite likely.

Certain sectors appear especially ripe for the picking right now, while others should be avoided as the shakeout continues.

The Investment Letter is mailed quarterly to our clients and friends to share some of our more interesting views. Certain material in this work is proprietary to and copyrighted by Litman/Gregory Analytics and is used by Mariner Wealth Advisors, LLC.

Quarterly Investment Commentary

For the most part, with respect to the ranking of investment returns, the fourth quarter of 2007 was consistent with the rest of the year. In general, commodity prices moved sharply higher, as they did over the full year. Emerging-markets equities and currencies continued their advance (there is an embedded commodity play in some of these markets). Developed country foreign equities declined, a reverse after a strong advance earlier in the year—but they still outreturned the U.S. equity market, which was down across all styles in the fourth quarter.

December Benchmark Returns (Preliminary)

	Dec.	4Q	YTD
Large-Cap Benchmarks			
Vanguard 500 Index	-0.7%	-3.4%	5.4%
Russell 1000 Growth iShares	-0.4%	-0.8%	11.6%
Russell 1000 Value iShares	-1.0%	-5.8%	-0.3%
Mid-Cap Benchmarks			
Russell Midcap iShares	-0.3%	-3.6%	5.4%
Russell Midcap Growth iShares	0.2%	-1.7%	11.2%
Russell Midcap Value iShares	-1.1%	-6.0%	-1.6%
Small-Cap Benchmarks			
Russell 2000 iShares	-0.1%	-4.6%	-1.5%
Russell 2000 Growth iShares	0.6%	-2.1%	6.9%
Russell 2000 Value iShares	-0.8%	-7.3%	-9.9%
Other Benchmarks			
Vanguard Total Int'l Stock Index	-2.3%	-1.2%	15.5%
Vanguard REIT Index	-5.1%	-12.9%	-16.5%
Vanguard Total Bond Mkt Index	0.2%	3.1%	6.9%
Merrill Lynch High-Yield Bonds	0.3%	-1.1%	2.2%
Citigroup World Govt. Bond Index	-0.5%	3.9%	10.9%
DJ-AIGCI (Commodity Futures)	4.6%	4.7%	16.2%
JPMorgan ELMI +	0.6%	4.4%	16.0%

Value continued to underperform growth in the fourth quarter, this time on the downside—and was in the red on the year. Growth stocks delivered decent positive returns for the full year. Small-caps continued to lag large-caps and were also in the red for the year. REITs' collapse intensified, as they dropped almost 13% in the fourth quarter alone. As recession fears increased, bonds performed well in the quarter and ended up with a solid 7% return for the year—ahead of the broad stock market.

2007 Retrospective

Without a doubt, investors will remember 2007 as the year that the housing market collapsed and triggered a credit crunch. The earnings of just about any company that was involved in homebuilding or lending were crushed. The stock of the average homebuilder dropped over 50% (and over 70% going back to the pre-2007 peak) and financial stocks in general were pummeled. Household names like Fannie Mae, Freddie Mac, Washington Mutual, Countrywide Financial, Citigroup, Merrill Lynch, and Bear Stearns were among the firms caught in the mortgage market meltdown.

As credit tightened and the housing market suffered, investors became more and more worried about the overall economy, triggering stock declines for many consumer goods companies. While all this was going on, U.S. exports were booming and reached an all-time high of 12.1% of GDP (as of 9/30/07).

Not surprisingly, companies with significant foreign-based earnings did well including (generally) energy, technology, and materials companies. Overseas stocks also delivered great returns. Related to the overseas story was the continuation of demand for energy and raw materials commodities from China and other high-growth developing countries. This trend was also reflected in the strong performance of the energy and materials-related sectors.

There was action in the bond market also. Investors first worried about inflation and then recession. At times they worried about both. The 10-year Treasury yield ranged from a high of 5.25% in June to a low of 3.85% in November. The best action was overseas as the dollar's drop gave U.S. investors currency gains that enhanced their returns. But outside of the government bond market, perceived credit risk rose, leading to underperformance.

2008: Be Prepared...But Don't Dwell on Negatives

The question most investors are asking at this point is: will the troubled housing and mortgage industries take down the economy? The underlying key is consumer spending, which makes up 70% of the economy. The contraction in the housing-related industries has a direct impact on employment and spending, but it is the related credit crunch and its impact on spending that could cause the most damage.

It is easy to dwell on the negatives and this is a common investment mistake that we've seen over many years. It is not a foregone conclusion that the negatives will drag the economy into recession—though some slowdown seems quite likely. Although the employment market is showing some signs of slowing (unemployment claims are starting to rise), it remains healthy. Corporate earnings outside of the financial sector are still growing. Emerging markets continue to thrive and a weaker dollar has helped support a boom in U.S. exports.

In Summary

Most equity-oriented asset classes are priced around fair value. Large-cap stocks remain attractive relative to small-cap stocks—so the former are overweighted and the latter underweighted in our portfolios. Economic risk has risen and recession is a clear possibility, though not necessarily a high probability. However, we continue to keep a close watch on risk exposure in our portfolios and will make tactical changes as needed.

If the current turmoil in the credit markets and/or an economic downturn triggers a severe sell-off, we are likely to see tactical opportunities created in several asset classes or at a stock-picking level. However, given the fear and uncertainty, it is likely to be a while before their stocks reflect their longer-term potential.

For long-term investors, market turmoil can create opportunities with the right guidance. One sector we see opportunity in right now is healthcare, and areas we are avoiding include consumer discretionary and telecommunications. We see developing countries outperforming developed again this year. Finally, look for the Fed funds rate to continue being lowered, which should be a positive for many fixed-income holdings.

As always, we will continue to keep you updated on current and projected economic conditions, and we will continue to steer the portfolios with a forward looking approach.

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