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First Quarter 2009

ARS Insights

Anderson, Riley, & Spoor, P.A.

Registered Investment Advisor

Index Returns 2008

- S&P 500 -37%
- Dow Jones Industrial -32%
- Russell 2000 -34%
- EAFE (Int'l Index) -43%
- Barclays Cap Agg. Bond +2.7%
- DJAIG Commodity Index -36%
- DJ-Wilshire REIT Index -39%

"Be more concerned with your character than your reputation, because your character is what you really are, while your reputation is merely what others think you are."

- John Wooden

- Tony Anderson, President

Game Changer

As I sat down to write this month's newsletter, I struggled to find a theme or topic that could adequately describe what investors experienced during 2008. The Dow Jones Industrial Average finished the year down -32% and -38% below its record set in October 2007. It was the Dow's worst year since 1931. The Standard & Poor's 500 Index did even worse, down -37% for 2008, its worst year since 1937. Even Warren Buffett's Berkshire Hathaway suffered a loss of -32% for the year, its worst performance in more than three decades.

Our client's accounts were down on average -18% to -20% for the year versus -37% for the S&P 500. While I'm grateful that our clients significantly outperformed the market, it's hard to find solace when looking at such significant losses.

We look at and value each client relationship individually. We try to get to know our clients on a personal level, to gain a better understanding of their investment objectives and risk tolerance. Thus, when we review our client's accounts and how they have been impacted by the market downturn, we don't just consider the numbers but we also consider the impact such a downturn may have on you reaching your long-term investment goals.

When the markets appreciate for extended periods of time, such as 2002 thru 2007, it's natural for people to think their risk tolerance is higher than it actually is. Due to the extreme nature of the market returns during 2008, we are actively reviewing each relationship to make sure that current client asset allocations match their risk tolerances.

Our outlook for 2009 hasn't changed much since our December market update letter. The economy is weak and continues to weaken. The slowdown is global in nature and impacting every sector of the economy. As such, we wouldn't be surprised to see the economy stay weak throughout 2009. As a result, we are going

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- Kurt Ulrich, CFA, Chief Investment Officer

Fundamentals do matter...in the long-term

By Kurt Ulrich, CFA

In the short-term, prices of publically traded securities (Stocks, Bonds, Commodities, ETFs, etc...) can be influenced by factors having little to do with their long-term fundamentals. Over the past few months asset prices across the spectrum have fallen, to a large extent, based on fear combined with forced selling by large institutions. These large institutions were forced to sell quality assets in order to raise cash to meet margin calls, pay down loans and pay back investors. Over time, prices of many of these assets should rise to reflect their underlying fundamental value.

For approximately 5 years from 2002 until the summer of 2007 (a record run without a 10% correction) prices rose on most investments, including those with inherently more risk such as low-grade bonds, emerging market stocks, etc... In fact, the prices of these riskier securities increased so much they traded on par with less risky investments indicating a complete lack of fear in the marketplace (the exact opposite of what we've experienced lately). Because of this euphoric attitude in the markets we began building cash and reducing risk in portfolios during 2007 and throughout 2008. Equity prices did peak during the summer/fall of 2007 and, as economic conditions continued to weaken, a credit crisis unfolded ultimately ending in a liquidity-driven panic sending prices spiraling downward through the 3rd week of November. No investment class was spared (except Treasuries) during this liquidity panic including investment-grade corporate bonds. When the dust settled prices on virtually all assets had fallen substantially. During late November many indicators which measure "fear" in the market (VIX, TED Spread) began to improve causing asset prices to recover some through year-end as the state of panic abated.

At this point we find ourselves wondering if the worst is over or, will another state of panic erupt? These are questions no-one can answer. In fact, there is fundamental data that supports each scenario thus making it quite difficult to predict.

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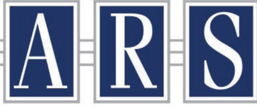

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Game Changer ... *(cont'd. from pg. 1)*

to maintain our very conservative outlook and positioning as we start 2009. We expect the market to remain "range bound" over the near term, trading in a range of 7,500 to 9,500 for the Dow Jones Industrial Average. This range bound period will provide opportunities to gradually "dollar cost average" into the market.

The market will continue to move sideways until the economic picture improves. Therefore we will continue to seek out conservative investments that offer attractive current income yields that we can buy at attractive prices. This should limit our downside, while paying us as we wait for the eventual market recovery.

While we have received many phone calls from clients who are happy they didn't "go down as much as the market", it's safe to say that no investor is happy with the investment results of 2008 and neither are we. We will continue to stay vigilant in protecting the assets you have entrusted to our care and management.

Please contact our office if you would like to schedule a meeting to review your accounts. We always welcome your inquiries and suggestions for how we can improve our service to you. Thank you for your continued trust.

God Bless,

Tony Anderson
President

Isaiah 41:10

Fundamentals do matter... *(cont'd. from pg. 1)*

While more downside for stock prices is certainly possible, there are some asset classes that appear to have found a floor. With the large amount of cash on hand we've been taking advantage of opportunities in some of these assets (Preferred stocks, Corporate Bonds, Pipeline companies) which appear attractively priced; are throwing off above average yields (6% to15%); and have, historically, been associated with much less risk than the general stock market. When compared to the long-term returns of stocks (approx. 10%) we are pleased to obtain yields of this magnitude from lower risk assets while waiting for more clarity on the direction of our economy and stock market.

We anticipate the economic woes with which we find ourselves will take longer to recover due to the highly leveraged state of the US consumer who's been living beyond their means for well over a decade incurring a huge amount of debt. This "de-leveraging" process will probably take years to accomplish until savings rates turn positive and debt is substantially reduced. While this may cause muted economic growth here in the US, other countries with high savings rates, large cash reserves, little to no net debt and favorable demographics should experience much stronger economies. Investments with exposure to these countries will realize above average growth. Therefore, we will continue to monitor the globe in general and the US markets in particular looking for ways to deliver safe, inflation-adjusted returns in the months and years ahead.

Best Regards,

Kurt

If you would like a copy of the most recent version of our Form ADV Part II, one is always available to you upon written request.