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Second Quarter 2009

ARS Insights

Anderson, Riley, & Spoor, P.A.

Registered Investment Advisor

Index Returns
First Quarter 2009

S&P 500	-11.0%
Dow Jones Industrial	-13.3%
Russell 2000	-15.4%
EAFE (Int'l Index)	-14.6%
Barclays Aggregate Bond	0.12%
DJAIG Commodity Index	-7.30%
DJ-Wilshire REIT Index	-38.9%

"Alexander Hamilton started the U.S. Treasury with nothing - - and that was the closest our country has ever been to being even."

Will Rogers

- Tony Anderson, President

Building a Base

It's my belief that the first quarter of 2009 marked the beginning of the bottoming process. I'm not foolish enough to try and pick a bottom or time the market, but there are several reasons why I believe the bottoming process has begun. As we all know, we're not at the beginning of this downturn, which started over a year ago. Most of us would agree that we're not at the end of this downturn either, given the continued deteriorating economic numbers and increasing unemployment.

The first two months of the year saw the stock market (S&P 500) continue the slide that started last year. Since the market bottom reached on March 9th, the S&P 500 has had a powerful rally, up 26%. Despite this strong rally, the S&P 500 still ended the quarter down -11%. During the bottoming process the market will go sideways, but not in a straight line. Instead it will be marked by brief, sharp rallies followed by pullbacks.

Another sign that we may be entering the bottoming process is the change in news flow. At the beginning of the year, you would have been hard pressed to find any news story or economic statistic that was positive. Everything coming out was negative. We are starting to see the news flow turn more mixed. Don't get me wrong, there is still plenty of bad news out there, such as continued rising unemployment, but we are starting to see a few positive statistics and stories mixed in with the bad news. (THIS IS POSITIVE)

A few questions remain such as:

1. How long will the bottoming process last?
2. Will the recovery look more like a "U" or a "V"?

You've heard the phrase "back to normal". I believe the normal we're "going back to" will be a NEW NORMAL and will look very different than the normal we just came from.

In the short-term, we will continue to have rising unemployment, which is a lagging indicator of an economic recovery. Economies are weak globally

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- Kurt Ulrich, CFA, Chief Investment Officer

Guarded Optimism

Economic news continued to disappoint during the first couple of months of this year. However, toward the middle of the quarter we began to notice a slight change in the air. Raw materials prices and their related company's stocks began to outperform during the first quarter while most stocks continued downward indicating a *possible* turnaround in worldwide economic fortunes. Then some positive economic indicators began trickling out in the midst of more bad. The new administration's stimulus plan was billed by many as lacking real stimulus "content" while China's stimulus plan was just the opposite. (e.g. First Quarter car sales in China were up 5% year over year to 1.1 million vehicles helping GM's China sales to rise 25%, highest ever in that country).

The relatively small bit of positive news was all the market needed to trigger a powerful rally (up over 25% off its March low as of this writing). With many things pointing to the "bottoming" process that Tony discussed, we have decided to slowly increase our exposure to equities in a very deliberate and cautious manner.

This bear market has created some great long-term buying opportunities in companies that: have strong sustainable business models; enjoy high returns on capital; have excess cash and strong balance sheets; and, are leaders in their respective fields. James Serrano, our Director of Business Development, refers to them as "Black and Blue Chips"…an appropriate name for such a time as this. As an example we've been purchasing Exxon Mobil, one of the largest integrated energy companies in the world. Exxon has over $30 billion in cash, continues to grow earnings and enjoys some of the highest returns on capital of any company. It appears to be a fairly safe place to allocate capital. As economic growth returns Exxon will be a prime beneficiary.

In addition, companies such as Johnson & Johnson, IBM, Colgate and other large multinational companies stand poised to benefit in the days ahead and will garner our increased attention. Individual opportunities like Williams Pipeline Partners, where the risk/reward appears to be substantially in our favor, continue to be on our radar. We will also be utilizing the Vanguard Total Stock market ETF (symbol VTI) as a way to get broad stock mar-

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If you would like additional information about the services offered by Anderson, Riley & Spoor, P.A., please contact us at (727) 322-7681.

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Building a Base ... (cont'd. from pg. 1)

with low inflation or even deflation. We have increased government involvement in almost all areas of the economy and are still determining the impact of multiple "stimulus" plans out of Washington.

Over the long-term, the potential consequences (U.S. dollar weakness and rising inflation) of the meteoric rise in Government debt and the "stimulus" being doled out in Washington will need to be monitored closely. The growth rate in the developed countries of (U.S., Japan & Europe) should be slower 1% to 2% versus the historic average of 3% to 4%. Faster growth should return to the emerging economies in (China, India & Brazil) as the global economy turns.

We had a tremendous response to our questionnaire mailed out last month. The two areas of service that were most valued and appreciated by our clients were our accessibility and personalized approach to managing accounts. If you have any suggestions or ideas for areas we can improve please let us know. We will continue to do our best to protect and grow the investments you have entrusted to our care. Please contact our office, if you have any questions or if you would like to meet to review your accounts.

Regards,

Tony Anderson
President

Guarded Optimism... (cont'd. from pg. 1)

ket exposure in the months ahead. This ETF allows us to participate in the market without taking specific (individual) stock risk and provides ample liquidity so that we can move quickly if the need arises.

At some point (we may be there already) the massive amount of liquidity being pumped into the economies around the world will have an impact and a recovery will occur. Economies such as China and India were in much better shape going into this downturn and should recover more quickly whereas the developed world's economies may experience a much more subdued rebound.

An economic turn should also put upward pressure on the prices of many corporate bonds whose yields are very attractive relative to treasuries. These huge discrepancies will narrow. Not only will owners of corporate bonds receive above average interest payments they should also enjoy attractive capital gains.

Finally, we still consider the massive shift in the developing world's population from "3rd world" status toward an emerging middle class as the main driver of long term economic vitality and will seek to invest in those companies who'll stand to benefit while keeping a close eye on inflationary pressures and their impact on our decisions.

My best,

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.