

February 04, 2009

As you will see from the data below, the start of 2009 didn't bring any improvement to the stock market. Fortunately for our clients, we have been underweighted in equities and overweighted in cash for quite some time. We expect to remain so until we see some clarity as to what the federal government plans to do with respect to a "stimulus plan" or "bank bailout plan".

January 2009 Market Data – Another One For the Record Books:

- ❖ The Dow Jones Industrial Average:
 - Down –8.8% for the month of January. This is the worst January in history and it follows the second worst year in history.
- ❖ The S&P 500:
 - Down –8.6% for the month of January. Again the worst January in history.
- ❖ The DJIA ended January at 8,000, down from its October 2007 peak of 14,164, a 43.5% decline in sixteen months.

JANUARY INVESTMENT ACTIVITY – What We are Doing and Why:

- ❖ For the most part we maintained the sizable cash levels that had been amassed over the last several months.
- ❖ We recognize the dilemma our clients face with the return on cash at historic lows.
- ❖ In response to the above noted conditions we began moving cash to short term insured CD's and/or a short term corporate bond fund, the Vanguard Short Term Investment Grade bond fund (VFSTX).
 - The fund has the following favorable characteristics: Low expense ratio of 0.21%; long term management of 25 years; only two negative years out of 25; short duration of 2.1 years; high average credit quality of AA; and a current yield of 5.1%.

CURRENT OPPORTUNITIES – Areas for Consideration:

- ❖ We believe high quality corporate bonds offer superior value over treasuries as the flight to safety has pushed treasury yields to historic low levels and corporate debt spreads to historic high levels. Historically investment grade corporate debt yielded 1% more than Treasuries. It is now yielding 5% to 6% more.
- ❖ With regard to equities, we are still playing defense as the uncertainty with respect to the length and degree of the current economic downturn continues. We continue to look for areas where we get adequately compensated to take incremental risk. For now we don't believe that place is in equities. However, we do believe we are near a bottom in the equity market (within 10%) and will move funds into stocks where appropriate when we have more clarity and the risk is adequately rewarded.

As always, please don't hesitate to contact our office if you have any questions or items to discuss.

Sincerely,

Tony Anderson