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Serving Your Personal Investment Needs Since 2003

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INVESTMENT ADVISORY

On November 23, 2008, I outlined a plan looking forward to the time when the economy has bottomed and it is appropriate to begin reinvesting in equities - stocks, mutual funds, corporate bonds, non-government guaranteed assets.

That time is not now. There is no way to know when that time will be. It appears that there are no easy fixes to put a stop to the deflationary process that is gaining momentum. There are no clear avenues along which agreement is possible. Bernacke, Geithner and the general consensus, proposes growing the money supply until the desirable outcome is achieved. The only reasonable, and potentially viable, alternative that I have found in the literature is to permanently reduce income taxes – this approach comes to us as the result of academic research done by Christina Romer, President Obma's choice as Chairwoman of the White House Council of Economic Advisors.

It seems clear that transitory tax rebates and/or economic stimuli are unlikely to accomplish the goal – to put a floor under the deflationary spiral that is gaining momentum. A permanent reduction of income taxes may work. The drawback is a foreboding one: years of very large Federal Government deficits supported by continuous, incredibly large, government borrowing.

Whatever the actions taken by our Government, the Federal Reserve, and the FDIC, we should have the proper tools to recognize if and when these actions begin to develop positive traction in the economy:

- **M-1 will begin to grow continuously and will develop a momentum that slowly increases;**
- **New claims for unemployment will peak and then slowly decline;**
- **Home foreclosures will peak and then slowly decline;**
- **The Commercial Paper market will recover its vitality, restoring money market fund purchases to the marketplace;**
- **Commercial and Industrial Loans will begin to increase again.**

At some point, we will have to decide to get back into the market - to begin purchasing equities once again. Reinvesting in equities is the best way to recover the losses we have incurred during the past 12 months. When that decision is recommended, we plan to follow the investment strategy outlined in the Advisory dated November 23, 2008.

For now, I think that it is important to be patient. There will be some investors who will want to begin buying equities now. If you want to begin buying now, plan to use close "stop loss" points where you can sell. My sense is that it is likely that there is another 25% down market yet to come - Perhaps even more than 25%. Much depends on the success or failure

of the governmental actions taken during the coming months and there is no clear direction at this time.

Almost all of the portfolios that we manage are out of the stock market. Thus they should not lose money if the stock market drops more. The only real risk remaining in some portfolios are in the closed end fixed income funds. These funds include: Eaton Vance Ltd. Duration fund, Van Kampen Senior Loan fund, Nicholas Applegate Convertible fund, and the Nuveen Preferred Stock fund. If and when one of these closed end funds drops 10% below its year-end price, I will recommend liquidating that fund investment.

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