High Desert Investment Advisors
12700 San Rafael NE
Albuquerque NM 87122
505-797-1901

Serving Your Personal Investment Needs Since 2003

October 11, 2008

HIGH DESERT ADVISOR

RECOMMENDATIONS:

- **After so much turmoil this past week, now is a time to begin planning to move money back into the market.**
- **We have taken 25% out of equities. Let's plan how to dollar cost average this money back into the market.**
- **There is a likelihood of a technical bounce from these low price levels - Then a retest of the lows. Probably, new low prices will be established before a final bottom is established.**
- **It is too early to start the reinvestment process.**

COMMENT:

It is probably time to take a deep breath and look for a place to buy back into the market. If, however, you are concerned about the long term ramifications of the current market turmoil, and want to move more money out of equities, we can use the coming market rally to sell. The likely resistance level for selling will be in the 1050 to 1080 price level of the S&P Index.
If this is your goal - to sell more – call me or Iris, and let's decide together where to sell.

ANALYSIS:

The financial markets are in crisis. Stock market price momentum is downward toward lower prices and there is an increasing level of investor anxiety every day as prices deteriorate further. This anxiety is feeding on itself.

- Today, most of our managed portfolios have a minimum of between 52% and 63% fixed income, after selling 25% of equity positions since June, 2008.
- The risk to selling at the current level is that it would be selling at a very low point in the market.
- The risk to taking no action is that stock market prices may go lower.
- The issue for most investors is capital preservation.
- The question is "Do you want to ride out the market volatility?" or "Do you want to sell?"
- If you acted on earlier advisories, you have liquidated 25% of your equity positions already.
- Several options are available to us now:
  1. Do nothing and ride it out. Let the market recover.
  2. Sell another 25% of your remaining equity investment, leaving that money in cash for now.
  3. Liquidate all equity investments.

<u>**History of where we have come in the past several weeks:**</u>

- Our Financial Model did not recognize the pending market failure. Federal Reserve data proved to be inaccurate in terms of reflecting the reality of actual monetary aggregates.
- Our fall back management tool is technical analysis.
- When the S&P Index price value went below the 1350 level, we recommended selling 10% of all equities, putting that money into a short term holding position for cash.
- When the S&P Index went below the 1250 price level, we recommended selling another 15% of all equity positions, once again to preserve capital.
- Prices should have found a bottom at the S&P Index price level of about 1076.

- Panic on the retail side of the market set in, and the S&P index plunged below the 850 price level. **Now it is too late to sell.**
- From a fundamental economic standpoint, unified government action around the globe, designed to stem the tide of panic in the equity markets, and provide liquidity to the financial markets, needs time to effect these goals.
- Projected targets for the S&P Index.
  - **The S&P Index is likely to establish a trading range between the price levels of 850 and 1050.**
  - **Buy at 850 and under.**
  - **Sell at 1050.**
  - **It is too early to begin buying.**
- We will have to wait to reinvest investment portfolios, until the market has time to reflect government efforts to provide liquidity to the financial markets. All of our portfolios are out of balance right now and will need to be adjusted during the next several months.
- New securities and financial market regulation is planned.
- 6-12 months will be required to normalize global banking systems.
- The housing market is bottoming. Important to the timing of a housing market recovery are interest rates and the availability of mortgage financing.
- The municipal bond market shows potential for future losses due to lower levels of tax revenues being paid to state and local governments.

The actions being taken by the Fed and the Treasury appear to be creating enough money supply in the system to allow the economy to continue to grow. These are positive signs for the longer term strength of the economy.

There will be more advisories to follow, but for now, my sense is that all investors should consider the proposed alternatives and provide us with feedback. Iris and I have tried to talk with everybody whose money we manage. **We need your input, and if we haven't talked with you yet, you should call one of us to talk about what to do next. Call either of us, even if you only want to just talk about your concerns. Because of the intense nature of the recent months, both Iris and I have had a lot of trouble spending enough individual time with each of you. Don't let this failure prevent you from calling us. It is important that you feel that you can reach us any time to talk about your concerns so that we - you and us - can work together to decide what is best for your needs and goals.**

Dick Brackett
High Desert Investment Advisors, LLC
505-797-1901