

High Desert Investment Advisors

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Serving Your Personal Investment Needs Since 2003

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INVESTMENT ADVISORY Long Term Investment In Equities

It is time to make a long term commitment to the stock market.

I recommend that all investors reinvest the remaining cash that is designated for equities, into a mutual fund allocation (shown below). This investment process should be done over a period of about 12 weeks, investing approximately 10% weekly. This investment will be a long term investment, allowing for more risk to the downside than we were willing to take when investing the initial reinvestment of 20%.

For this process we will have a specific loss limiting sell point. This sell point will be based on a longer term moving average - the 10 month end-of-month moving average (MA) of the S&P 500 Index.

Example: If the trading range of the S&P Index is below the 10 month MA for five consecutive days, on the 6th day, we will begin selling out of all equities, dollar cost averaging those sales over a period of 8 weeks. Today, new money invested would have about a 14% loss risk before hitting the sellout point S&P = 945 (assuming that the S&P Index is at 1100 at the end of November; today that number is at S&P = 917).

Let me explain my thinking about this market re-entry recommendation by first stating that there remains considerable risk to the U.S. economy, to the global economy, and to the markets in general. There are very difficult hurdles to overcome during the coming years. They include very high levels of unemployment, increasingly large government debt - which will lead to potential debt servicing difficulties in the out-years (2015-2020) -, severe lending/borrowing issues for small business, reduced consumer spending, increased personal savings rate, and on and on and on..... There is almost an unlimited list of potential problems to face in the coming years!!

That being said, why is the stock market going up? Is the 3.5% GDP growth in the 3rd Quarter a sign of future growth, or just a reflection of past government stimulus? Is the economy exhibiting internally generated momentum? What are the signs that lead us to be confident that our investment in the stock market will be rewarded with increased values?

In fact, there are those indicators.

Perhaps the most important indicator is that "real" money supply is increasing at greater than a 3.1% rate (M-1 is increasing at 3.1%). Accepting that money supply and the economy are directly related, if money supply grew at 3.1%, how is it that the economy grew at a rate of 3.5%? We can look at the velocity of money (V) for an answer to this question. For six Quarters, the Velocity of Money contracted. In Q3, 2009, Velocity of Money grew for the first time in over 1 ½ years. This is a reflection of an increasing leverage of money supply, generating more goods produced and more services provided. Company earnings have been surprisingly good because productivity has improved dramatically. Top line revenue growth has not improved - with only a few exceptions - but there are indications that even the consumer is thinking more positively. Where savings rates went to 6%, they have now retraced to about 3%, still way above zero where they have been until the past 18 months, but reflecting less panic about potential job losses and more confidence in our economic future. Exports have been growing and momentum toward energy conservation is holding down petroleum imports (more or less).

Of course, these days, there is little certainty in projections about the future. That being said, it is now time to place our confidence in the future. We can believe in our economic system, even with all of its faults and failures - in business and in ethics. It is time to invest in that future.

RECOMMENDED ASSET ALLOCATION FOR INVESTING

RECOMMENDED ALLOCATION - EQUITY ACCOUNT SIZES UP TO \$20,000

17%	GFAFX	GROWTH FD OF AMER. (AGTHX)
12%	JARTX	JANUS ADVISER FORTY
12%	SGENX	FIRST EAGLE SOGEN GLOBAL A
15%	FCNTX	FIDELITY CONTRAFUND
12%	PRBLX	PARNASSUS EQUITY INCOME FND
10%	KSCVX	KEELEY SMALL CAP VALUE
12%	EATVX	E.V. T/M VALUE
5%	JAOSX	JANUS FD - OVERSEAS
5%	PRPFX	PERMANENT PORTFOLIO FUND

RECOMMENDED ASSET ALLOCATION

9%	GFAFX	GROWTH FD OF AMER. (AGTHX)
9%	JARTX	JANUS ADVISER FORTY
4%	HGOAX	Hartford Growth Opportunity
5%	SGENX	FIRST EAGLE SOGEN GLOBAL A
4%	HIINX	HARBOR INT'L INV.
9%	FCNTX	FIDELITY CONTRAFUND
9%	PRBLX	PARNASSUS EQUITY INCOME FND
5%	KSCVX	KEELEY SMALL CAP VALUE
9%	EATVX	E.V. T/M VALUE
6%	GCMAX	GOLDMAN SACHS MID CAP VALUE
7%	TESIX	MUTUAL SHARES FUND A
8%	NYVTX	DAVIS NY VENTURE
5%	MACSX	MATTHEWS ASIAN GWTH & INC FUND
5%	JAOSX	JANUS FD - OVERSEAS **
3%	PRPFX	PERMANENT PORTFOLIO FUND **
3%	TCREX	TIAA-CREF INST. REAL ESTATE SEC RETAIL

**Investments in the Janus Overseas Fund and the Permanent Portfolio Fund are already in place.

PERCENTAGE AMOUNT ALLOCATED TO EACH CATEGORY

L/G	L/V	S/G	S/V	INT'L	F.I.
\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
<u>22.9%</u>	<u>18.3%</u>	<u>12.1%</u>	<u>6.6%</u>	<u>25.6%</u>	<u>14.6%</u>
\$22,870	\$18,250	\$12,110	\$6,550	\$25,640	\$14,580
\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000

(Note: F.I. (Fixed Income) shown here reflects only the mutual fund levels of cash held.)

Please contact Iris or me to express your individual preference as to these recommendations. These recommendations will not be implemented unless you provide that direction to do so.

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Dick Brackett
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