

# The Advantage Advisor

Volume 13, Issue 1

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## Market Commentary:

The returns for the S&P-500 Stock index in January, 2009 represented the worst January ever on record. But that was most definitely not the case for our own clients. And while the losses suffered by the broad market look grim, they are a bit misleading when taken out of context. The broad market hit a bottom in mid-November of 2008, with the Dow Industrial Average falling to 7,500 before turning around. Since that point, the Dow has recovered to above the 8,000 level - a gain of more than 6.6% off its low. While the trading is choppy and volatile, the Dow has managed to hold onto those gains and is forming a strong base around the 8,000 level.

As for our own investment strategies, January returns ranged from an average return of -3.3% in our stock strategies (still besting the markets by a wide margin), an average gain of 1% in our Bond strategy, and an average gain of 2.4% in our Current Income strategy. (Please note that these are average gains and individual account performance will vary to some degree. Past performance cannot guarantee future results.)

### Current Market Status

While high volatility remains a dominant factor in the financial markets, we are seeing the formation of a very solid base from which a price recovery can begin. The major stock indices have held above those November lows for several months now. While a re-test of those levels is not out of the question, the probability of a breakdown below those levels grows smaller over time.

One major shift in sentiment that we have seen since the beginning of 2009 is the retreat out of the US Treasury Bond market. This can be seen in the nearly 9% loss for the Shearson Treasury Bond Index. However, this does not mean that bonds are being sold off

### Market Statistics for January

<u>Market Index</u>	<u>Closing Price</u>	<u>% Change</u>
Dow Jones Industrial Average	8,001	-8.8%
S&P-500 Stock Index	826	-8.6%
Russell 2000 Stock Index	444	-11.2%
Shearson Treasury Bond Index	17,339	-8.9%
Dow Jones World Stock Index	157	-8.5%
Nasdaq Composite Index	1,476	-6.4%

in general. To the contrary, there is a significant pickup in interest in the corporate bond market, both high quality and high yield alike. In January the Dow Jones Corporate Bond Index posted a 0.8% gain while a composite average of high yield bond funds posted a very impressive 4.9% gain. Clearly there is renewed interest in those markets.

For the equity markets, we are beginning to see some divergences between asset classes, which is actually a good thing. During a major selloff, such as we have seen, all asset classes tend to move the same direction - down. Just taking a look at the performance numbers for January makes that very obvious. However, as the markets return to more normalized trading, we will begin to see some sectors outperform others once again.

Right now, we are starting to see that outperformance in small cap and mid cap stocks, particularly in the value sector. This is the type of change that we have been anticipating and have already shifted our portfolios to emphasize those sectors within the asset mix.

### Investment Strategy Update

You can review our current strategy allocations in the charts on the back page of this month's newsletter. As of mid-January all of our strategies are fully invested. This is because we believe that we are indeed building a base and the probability of prices moving higher from here is much greater than that of another significant breakdown.

(Continued on page 3)

# The Economic Picture

The US economy remains in a very tenuous position at the moment. Consumers and businesses alike are eager to see whether the promised results from President Obama's stimulus package will truly be seen and felt. The key to any real economic recovery appears to be turning sentiment away from the gloom that seems to be so pervasive right now.

Clearly, we remain in the midst of a major recession. Because the rhetoric and sentiment have become so negative, businesses and consumers alike are responding very aggressively by cutting costs wherever possible. These massive cutbacks have led to a rapidly rising unemployment rate and a near shutdown in consumer spending.

The good news (yes, there is some) is that investors have also been extremely aggressive in pricing in the most pessimistic of scenarios. What results in the markets is that when a report is released that is not nearly as dismal as was expected, stocks and bonds rally - even on the bad news. For example, GDP for the 4th quarter of 2008 was expected to decline at a -5.2% annual rate. The actual decline was -3.8% and in the face of that (still) bad number, the markets responded with a broad rally.

This type of behavior is very typical when we are at or at least near the bottom of a bear market. As I have

## Current Economic Position: Stage 6 - Recession

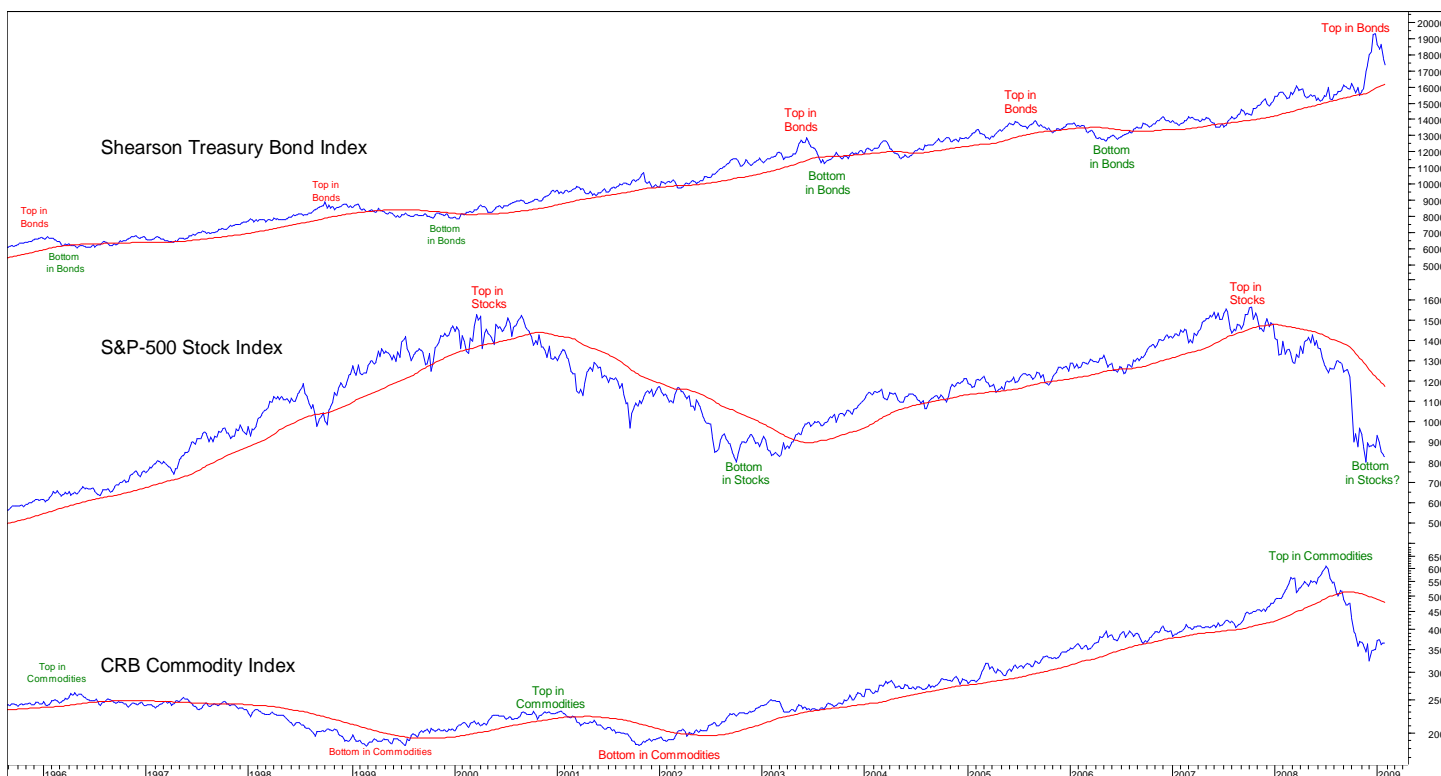
### Economic Indicators

	Latest	Prior
<b>Growth</b>		
GDP	- 3.8%	- 0.5%
Productivity	+1.3%↑	+3.6%
Employment Cost Index	+0.5%	+0.7%
Capacity Utilization	73.6%	75.2%↓
<b>Inflation</b>		
Consumer Price Index	- 0.7%	- 1.7%
PCE Deflator (Personal Inc)	- 0.5%	- 1.1%↑
Implicit Price Deflator (GDP)	- 0.3%↓	+3.9%
<b>Sentiment</b>		
Consumer Confidence Index	37.7	38.6↑
Unemployment Rate	+7.2%	+6.8%
Personal Income	- 0.2%	- 0.4%

↑=revised up, ↓=revised down

Source: Moody's Economy.com

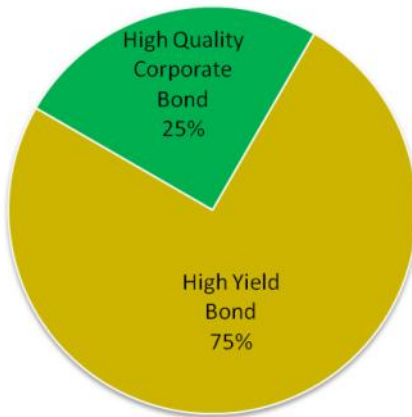
been stating for some time, investors have pushed prices down to levels that just are not realistic. It is an unfortunate aspect of human nature that we tend to extrapolate our present circumstances into the future. In other words, we tend to think that how things are now is how things will continue to be. The truth is that the economy moves in cycles, and we are very near the bottom of the negative side. Therefore, now is the time to lay out plans to be ready for the eventual recovery. The road to recovery may be slower than we like, but it is coming.



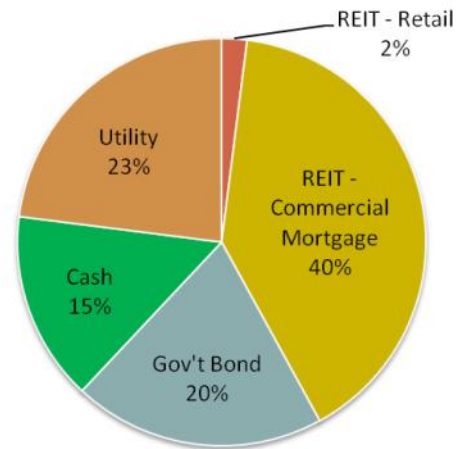
Source for data: Investor's FastTrack

# Current Investment Management Strategy Allocations

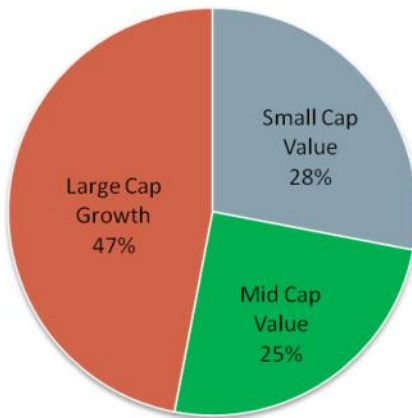
## Bond Strategy



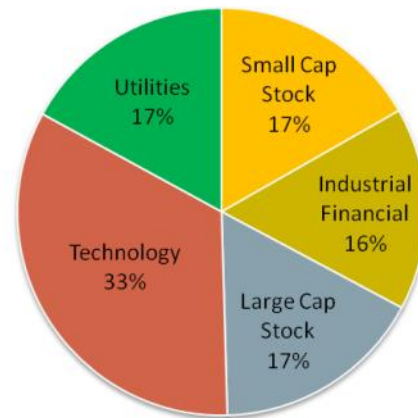
## Current Income Strategy



## Stock Strategy



## Strategic Allocation Strategy



*(Market Commentary, continued from page 1)*

Of course, please be assured that we are watching closely and will be ready to move back out of our trading positions should that downside begin to occur.

Our Bonds Strategy continues to maintain a mix of high yield and high quality corporate bonds. We are intentionally avoiding US Treasuries because the potential downside in that marketplace is significantly higher than any further upside.

Our Current Income Strategy continues to maintain a mix of fixed income and utility investments. The

current yield for that strategy is 9.2%, which represents a 6.6% premium above the 10 Year Treasury Note.

Our stock based strategies both emphasize those styles and/or market sectors which we believe will show the highest upside potential over the short to medium term, and should also have lower downside risk. As a result, both of these strategies have been able to outperform the S&P-500 on a year to date basis by a margin of more than 4 to 1!