

MARKET UPDATE NEWSLETTER

The Stock Market thus far in 2009

It is said by many Wall Street professionals, "As goes January, so goes the year". This is said because the stock market's direction in January seems to set the tone for the rest of the year more times than not. This January has seen positive and negative trends, with the net effect leaving the S&P500 down a quiet -8.4%, making this the worst January ever. We state "quiet" because it was not front page news in the media as it would have been just a month or so ago. We don't want to imply that 2009 will be the worst year ever just because of January. Rather we note that we should expect exaggerated ups and downs (volatility) to continue for some time to come.



Fortunately, the strategies we have in place with our clients were successful in January and even more so these first weeks of February. Until this headwind turns to a tailwind, we plan to continue these strategies and adjust them as need be. As the battle between the Bear and the Bull continues, guessing a stock market bottom is of less concern to us than being prepared for all market conditions.

CURRENT MARKET OUTLOOK

Cash / Stable Value

- Still maintaining higher levels of cash

Bonds

- Diversified from ultra safe to high yield
- Cautious of Treasuries
- Positive on convertible bonds at the right price

Stocks

- Still cautious of stocks
- Utilizing covered call strategies
- Limit International exposure
- Positive on utilities
- Positive on China and Brazil, avoid Russia

Other Asset Classes

- Positive on Gold and Silver
- Positive on alternative energy stocks
- Positive on energy trusts

The Economy and the Stock Market

Anyone reading a newspaper or watching the news knows all too well about the poor state of the economy along with the poor state of the stock market. While they are certainly interrelated, it is important not to confuse the two. There is a difference between the stock market and the economy. Think of the stock market as a reflection of economic data, views and opinions looking forward 6 to 12 months. Thus the stock market adapts quickly to changing information while the economy needs time to digest and adapt to new information. For example, the National Bureau of Economic Research officially stated in December of 2008 that the U.S. economy has been in a recession that began in December of 2007 — something that the stock market was already telling us.

While it can be hard to determine short term fluctuations from the longer term economic trends, we won't be surprised if the market once again predicts the end to our current recession.

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What is an ETF?

At SDW, we've been using more ETFs in our clients' portfolios than in the past. So what exactly is an ETF? An exchange traded fund (or ETF) is an investment that has features of both a mutual fund and an individual stock. Each ETF has holdings of stocks, bonds or both based on its particular objective just like a mutual fund. Some are broad in scope, such as an index like the S&P 500, and others narrow in scope, such as only bank stocks or only gold. Some are passive, they track an index, and others are managed, wherein managers select the investments to be included.

What makes ETFs unlike mutual funds is that an ETF can be bought or sold anytime throughout the day exactly like stocks, while mutual funds can only be bought or sold at the end of the day at the closing price. This flexibility that ETFs offer can be very advantageous as prices change throughout the day. Being selective about the prices we buy and sell investments at can make a big difference in your portfolio performance.

ETFs typically have lower costs than mutual funds. The average mutual fund has an expense ratio greater than 1.25%, with some funds well over 2.00%. ETFs average around .52% and many are as low as .10%. Furthermore, the tax structure of ETFs is easier to track and often times more favorable than that of mutual funds.

ETFs provide a very effective way to gain exposure to a particular market sector in a cost conscious and efficient manner.

Some ETFs used by SDW

- NASDAQ - QQQQ
- S&P 500 - SPY
- SPDR Gold - GLD
- iShares Silver - SLV
- Market vectors global Green Energy - GEX
- iShares International - EFA
- iShares Aggregate Bond Index - AGG
- iShares Treasury Inflation Protection - TIPS

Message from Fidelity

Fidelity Investments (Fidelity) Provides Excess Securities Investor Protection Corporation (SIPC) Coverage from Lloyd's of London

Effective February 16, 2009, one of our excess Securities Investor Protection Corporation (SIPC) providers, Customer Asset Protection Company (CAPCO), will no longer provide excess SIPC coverage to brokerage firms. Until February 16, 2009, we will continue to provide brokerage customers/clients with excess SIPC coverage from CAPCO, as well as from Lloyd's of London, which has received an A rating from ratings firm AM Best.

Within our \$1 billion Lloyd's policy, there is no per account dollar limit on coverage of securities. There is a per account limit of \$1.9 million on coverage of cash awaiting investment. This is the maximum excess SIPC coverage currently available in the brokerage industry. No change is expected to the Lloyd's excess SIPC coverage after February 16, 2009; it will remain in place for brokerage accounts. Excess SIPC coverage would only be used were SIPC coverage to be exhausted.

It's important to remember that SIPC and excess SIPC coverage does not cover investment losses in customer accounts due to market fluctuation, and does not cover claims for losses incurred while broker-dealers remain in business.

Note: SIPC protects brokerage accounts of each customer when a brokerage firm is closed due to bankruptcy or other financial difficulties and customer assets are missing from accounts. SIPC covers up to \$500,000 in securities, including a limit of \$100,000 on claims for cash awaiting reinvestment. Money market funds held in a brokerage account are generally considered securities.

Certain assets are not eligible for SIPC protection. Among the assets typically not eligible for SIPC protection are commodity futures contracts, currency, and precious metals, as well as investment contracts (such as limited partnerships) and fixed annuity contracts that are not registered with the U.S. Securities and Exchange Commission under the Securities Act of 1933.