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MARKET UPDATE NEWSLETTER

February Market Update

In our January newsletter, we talked about the S&P500 starting the year off with its worst January ever, down 8.4%. Things have continued to deteriorate in February, with the S&P posting a monthly loss of 10.99%. With this continued downturn, we ponder at what point will the general public say enough is enough, and throw their stocks overboard in an attempt to just keep the boat afloat. This is a possibility of which the consequences would permanently affect the finances and psyche of millions of Americans. However, this general public malaise could create a once in a lifetime opportunity for the investors who have protected themselves during this downturn. We can be certain that we will not perfectly time the bottom of this, but if we are less in on the way down, and more in on the way up, our clients could emerge extremely well-off in the next few years. Although the market could easily go up or down this month, the risk on the downside may be higher than usual because of the public's heightened anxiety with their investments. We believe this to be the case for at least the next few weeks. Times of crisis like these present the best opportunities to learn and prepare for the future. We are confident in our ability to adapt our strategies, which will in turn allow our clients to take advantage of these opportunities. To quote Abe Lincoln, "This too shall pass."

INVESTMENT OUTLOOK

Cash / Stable Value
– Still maintaining high levels of cash

Bonds
– Diversified from ultra-safe to high-yield
– Cautious of Treasuries for the long-run
– Positive on convertible bonds at the right price

Stocks
– Still cautious of stocks
– Utilizing covered call strategies to hedge
– Cautious of international stocks
– Positive on China, Brazil, and Canada
– Avoid Russia, much of Europe, the U.K., and Japan

Other Asset Classes
– Positive on Gold and Silver
– Positive on alternative energy stocks
– Positive on energy trusts

Investment Outlook Details

We continue to prefer greater percentages of cash because of current market conditions. Although bonds are considered safer than stocks, we are erring on the more conservative side of bonds. We are utilizing U.S. Treasuries, the most conservative type of bond. While their yield is near the historic lows, treasuries still provide the safest of havens for the time-being. In regard to international stocks, we are very cautious because a strong dollar is poor for international stocks. The dollar is a currency of safety, thus investors worldwide tend to want to own dollars instead of other currencies. Nobel Prize winning economist, the late Milton Friedman, predicted the Euro would not survive its first important recession. It will be very interesting to see if this prediction comes true. Finally, gold and silver are also considered investments that investors flock to when looking for safety. We are looking at gold and silver as alternative investments that can protect and perform well in uncertain times.

The American Recovery and Reinvestment Act of 2009_aka "the Stimulus Package"

With 60 votes, the minimum needed to pass, the Senate approved the $787 Billion dollar stimulus bill. The American Recovery and Reinvestment Act of 2009 was promptly signed into law by President Obama on February 17. This package contains provisions ranging from tax relief and education to new infrastructure and health care. Understandably so, a bill of this size can be confusing to understand. We would like to touch on a number of key tax provisions to help answer the question, what does this mean for you?

- Most individuals earning a wage will qualify for a 6.2% tax credit. This is capped at $400 for a single tax filer and $800 for a married couple*.
- Taxpayers subject to the alternative minimum tax will enjoy a one year "patch". This will help protect millions of tax payers from the AMT.
- First time home buyers can receive a maximum tax credit of $8,000. This applies to homes purchased from December 31, 2008 to November 30, 2009*.
- Individuals receiving unemployment benefits will be able to exclude the first $2,400 of benefits from their gross income. In addition, as much as 33 additional weeks of unemployment compensation will be made available to workers who have exhausted their benefits.
- Small business owners have the ability to depreciate 50% of the cost of an asset placed into service in 2009.
- Beneficiaries of qualified tuition programs (i.e., a 529 plan) can use tax-free distributions to pay for computers and computer technology.
- Increases section 25C residential property tax credit from 10% to 30% and raises the aggregate cap to $1,500 for 2009 and 2010 installations.

STIMULUS SPENDING

Making Work Pay Credit $116.2B
AMT Patch $69.8B
Other Individual Tax Cuts $46.5B
Corporate Tax Cuts $6.2B
Other Tax Provisions $47.9B
Education Spending $49.7B
Health Care Spending $153.8B
Additional Aid to States $56.3B
Infrastructure $121.2B
Unemployment/Assistance $58.1B
Food Stamps $20.0B
Other Spending $41.5B
Total $787.2B

In addition to tax benefits, the Act contains extensive spending for various new projects, infrastructure, education, research, and renewable energy initiatives.

*It is important to note that the credit phases out for individuals earning more than $75,000 and married couples with income of $150,000 or more.

For our retired clients

No Required Minimum Distributions from IRAs in 2009

Normal IRS regulation requires investors over the age of 70½ to withdraw a calculated amount of their IRA investments each year. This is known as Required Minimum Distributions (RMD). *For 2009 only, the IRS is **not** requiring this distribution.* We will be speaking with our clients individually as to how this effects them.

For our achieving clients

Preparing for the Roth IRA Conversion of 2010

Roth IRAs have one of the best features ever given to the US taxpaying investing public; you will not have to pay taxes on qualified distributions. It may be beneficial to convert your traditional IRA to a Roth IRA while the markets are down — thus paying taxes on the lower account balances instead of years later at higher account balances. However, current limitations exist for many investors. Roth conversions are only allowed for investors with an adjusted gross income (AGI) below $100,000. In 2010 that law changes and IRA to Roth IRA conversions will be allowed for everyone, regardless of income. We will be working with our clients throughout the year and help assess if this strategy is right for their situation.