



Client Bulletin

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Our research is painting a brighter picture!

Lots of legitimate concerns remain about the fundamental issues of government spending, continuing credit issues, falling real estate prices, and so on. In the investment arena though, demand or higher market prices, is definitely showing signs of coming back. Could those positive signs flip over and start back down? Yes, that could happen. However, since last October the signs were ever so slowly growing that a bottoming process was occurring. Since the March 6, 2009 S&P 500 low at 667, the positive signs have accelerated.

Let's discuss some of those positive signs in the following paragraphs.

Most obvious to the average person is that major market indices have risen significantly (25% or more) since March 6th. Even if you don't follow the markets you hear it on the news. That 25%+ increase was in line with the statement we made in our March 2009 bulletin.* The move up while rapid did have its pullbacks but each pullback low was generally higher than the previous low. From a market strength standpoint that's good news.

The VIX volatility or fear factor index has fallen a great deal. From a historic high of 89 last year, it has now fallen below 40. While still on the high side the VIX is in a downtrend. A lower VIX level is usually associated with a more stable and healthier stock market.

More stock prices are reversing from a negative trend to a positive trend. One great example is Ford. Ford's trend, negative since 2001, just last week broke out to the upside and is now in a positive trend. I suspect that many of us would love to feel good about buying an American car again. That turnaround in Ford's stock hopefully will be a prelude to a comeback. Ford is but one of many stocks that are moving back into an uptrend and those trend turnarounds are an important part of the process toward market recovery.

The fixed income yield curve is positive. For example, the different Treasury maturities are roughly yielding: 1 yr : 1%; 5 yr: 2%; 10 yr: 3%; and 30 yr: 3.75%. A positive yield curve, meaning that yields are increasing from short term to long term, historically bodes well for the stock market.

Commodity prices and equities have gained in relative strength over bonds. That means their prices are going up more on up days, and down less on down days, than are bond prices. Therefore they are showing better relative strength than bonds. In turn that suggests better price appreciation for commodities and equities over bonds in the weeks and perhaps months ahead.

While we see a good present and future strength in the commodities sector, at the same time there are signs that the gold and silver commodities sub-sector is weakening. A weakening in gold and silver suggests the beginnings of a migration of assets out of these safe havens, back into equities, other commodities, real estate, and bonds.

We continually monitor the dollar and other currencies. Dollar performance relative to other currencies is important to investment strategy. At this point we do not see a clear uptrend or clear downtrend for the U.S dollar. We know that international equities are now favored over domestic equities. That is primarily being driven by emerging markets. They have a higher growth rate than developed nations. Many are rich in commodities and raw materials for which demand is improving. A weakening dollar could be a third factor underlying the strength we are seeing in emerging markets and international investments. *(continued on next page)*



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The major indices have now increased to a point where they are meeting resistance. For instance the S&P 500 moved up into the 860's at which point it dropped off some. We would like to see the S&P 500 hold above the 800 level and preferably hold above the 820 level in the weeks ahead. Another very positive sign, however, would be to see it move even higher and break out above the 875 level.

That summarizes some of the bright signs we've recently seen and where the market currently is.

A few other items that you may find of interest follow.

A bear market is generally defined by a decline of 20% or more. Below is an interesting table of previous bear markets going back to 1940. The chart is courtesy of Bridgeway Funds. The current bear market is the bottom row and as you can see, its end remains to be seen. With no guarantees, we'd like to reiterate that our indicators do continue to paint a more positive picture.

PREVIOUS BEAR MARKET RECOVERY PERIODS

Date of Peak	Date of Low	Date Back to Previous Peak	Peak Rate of Unemployment	# of Months from Peak to Low	# of Months from Low to Prev. Level
May 31, 1946	Oct 9, 1946	Oct 11, 1949	7.9%	5	36
Dec 12, 1961	Jun 26, 1962	Apr 24, 1963	6.0%	6	10
Feb 9, 1966	Oct 7, 1966	Mar 23, 1967	3.9%	8	5
Nov 29, 1968	May 26, 1970	Mar 15, 1971	4.4%	18	10
Jan 11, 1973	Oct 4, 1974	July 9, 1976	9.0%	21	21
Nov 28, 1980	Aug 12, 1982	Oct 7, 1982	10.4%	21	2
Aug 25, 1987	Oct 19, 1987	May 17, 1989	6.0%	2	19
Sep 1, 2000	Oct 9, 2002	Oct 23, 2006	6.3%	25	48
Oct 9, 2007	Mar 9, 2009 - ??	NA	8.2%++	17 - ??	??
Average (excluding current)				13	19

Remember, none of us know what will happen tomorrow, we just have to deal with what is, stack the odds in our favor, and always have a game plan to deal with what is. We continually work to be the best in our field at preserving and growing our client assets. We believe we are at the leading edge in terms of research and experience being able to do this.

Global Finance magazine did a press release on February 25, 2009 with it's 17th annual article on the safest world banks; ***World's 50 Safest Banks 2009***. **RBC was number 10**. In general, Canadian banks are considered the safest in the world. RBC is also ranked the safest of the Canadian banks. Since almost all of our client assets are custodied under the umbrella of the Royal Bank of Canada, I thought that you would appreciate this information. (Sidenote: The only U.S. bank listed in the top 25 of this list was Wells Fargo at number 21; US Bancorp, Bank of New York Mellon, and J.P.Morgan Chase were the only other U.S. banks listed.)

I hope that you all found this bulletin helpful in your understanding of the markets and appreciate our commitment to educating you and keeping you informed on a timely basis.

Our team works continually to be the best in the industry at preserving and growing client assets. Please contact us if you know of someone who might need and appreciate our help in any area of wealth management including estate planning, insurance, or other areas of financial planning and investment management.