



Client Bulletin

William Baker
& Associates, Inc.

400 Galleria Pkwy, Suite 1500 Atlanta, GA 30339 Phone: (770) 956-4073
e-mail: wmbaker@wilbankssecurities.com www.wmbakerinvest.com

December 16, 2008

A Positive Puzzle is Shaping Up

Our supply-and-demand short-term news increasingly suggests improvement in the equity markets. The odds are improving for an upside move in prices in the period ahead. I want to emphasize that there are no guarantees. Something could happen to shift these indicators as has happened so often in October and November. Nevertheless, more and more pieces of the puzzle are falling into place on the side of demand or higher prices in the market. This positive puzzle is falling into place in the face of a great deal of fear, anger, and pain across the spectrum of investors around the world.



All of us know by casual viewing of the news that the fundamental financial and economic conditions are ambiguous, uncertain, and terrible. Private industry is strapped, consumers are strapped, and so it's up to the government to invest and loan the money to help us get through this recession and credit mess. The good news is that action, not always on the mark, but action is underway. That is a great difference between today and the era of the 1930's before the New Deal. Then, bank runs were the norm, unemployment got up to about 25%, there were lots of long food lines and government basically sat on its hands. So in spite of the fundamental fog that we're operating in, actions are being taken to address our fundamental economic problems. Those actions will continue, are somewhat globally coordinated, and probably will improve as time goes on.

Let's summarize where we are right now. New prospects I've spoken with over the past weeks are typically down 35% to 50% since the beginning of the year. Some are faced with the prospect of increasing the years they work before retiring, some have decided to stop opening their end-of-month statements, and some have resigned themselves to leaving a smaller financial legacy to their children. Some are pessimistic while others are resigned but some are optimistic. Except for cash, there were no hiding places and many of the most renowned money managers had their clients' portfolios smashed over the past months and year.

Basic stock valuations, in general, are now at excellent if not superb valuations. The one caveat in my mind is that the latter statement is true barring a deflationary scenario. A deflationary scenario would change the ballgame for the worse. Hopefully, the coordinated global approach to address this crisis will be able to fend off that possibility.

Getting back to supply-and-demand research, but without getting immersed in technicalities, since November 20th more and more indicators have been showing that demand or higher prices are gaining traction in the market place. It's kind of like doing a puzzle. Initially you start with the four corners, then the edge pieces, and finally the picture within the frame. We're beyond the corners and edge pieces and are seeing a positive picture slowly taking shape within that frame. More and more of our many indicators are popping up positive for the short term. These positive indicators, flying in the face of worsening fundamental news, are a good reason to be heartened.

For recovery, it is extremely important for us to do what we do best, which is to continually, every day, assess and execute on the appropriate allocation of assets across and within asset classes. We have a game plan in place and working to get back to even and into wealth accumulation mode. Please contact us if you have any questions or know prospects who may appreciate our help in restoring their portfolios using a continual due-diligence, disciplined, risk-managed approach.