INVESTMENT MANAGEMENT AND FINANCIAL PLANNING

William Baker & ASSOCIATES, INC.

Securities offered and supervised by Wilbanks Securities, Inc. Member FINRA/SIPC Investment Advisory through Wilbanks Securities Advisory 4334 NW Expwy, Suite 222 Oklahoma City, OK 73116 405-842-0202

400 Galleria Parkway • Suite 1500 • Atlanta, Georgia 30339
770-956-4073 • bbaker@wmbaker.com
www.wmbakerinvest.com

William H. Baker, CIMA/CIMC
President & CEO

Investment Insights

June 2009

HELD UP AT GUNPOINT

Once upon a time, I was held up at gunpoint. I was a young naval officer living in San Diego, and my brother had come to visit. I suggested that we spend some time as tourists across the border in Tijuana, Mexico. It was night time and we were in the wrong place when we found ourselves staring down the barrel of a revolver. It was a big revolver the guy had but I imagine, when you are staring at that end of a revolver, it always looks big. Our assailant looked mean as a snake and demanded our money. We didn't pick a fight with him as we believed he probably wouldn't hesitate to pull the trigger. We handed over our money and he took it and ran.

This all happened very unexpectedly and very quickly. We were thankful we got through it without getting shot. Being robbed at gunpoint is not fun, but that situation could have ended up a lot worse. Dead you know!

Though not at gunpoint, people around the world have been held up. They were robbed as a result of the recent sub-prime mortgage, banking, insurance, and Wall Street shenanigans. The accomplice, irresponsible behavior on the part of lenders and, occasionally, the borrowers .

There are a few lessons we can learn and apply from my personal experience and the more recent financial meltdown experience which most everyone has felt. These may not be new lessons but a reinforcement of their importance.

Lesson one, is that we want to remember to do our best to stay away from the wrong places. Whether it be personally walking around in Tijuana, Mexico; or whether it be having your money invested in the capital markets; what is it that we want to remember? We want to remember to do our best to stay out of the wrong places! Vice versa, we want to remember to do our best to be in the right places! Remember, more than 90% of portfolio performance is driven by how money is divided across the four asset classes* given the market conditions.

From October of last year through early March 2009, it seemed that just about any place was the wrong place to be. Cash equivalents and certain areas of the fixed income market were the exceptions. There were few places to hide from the meltdown. In particular, banks, thought by so many to be the pillars of trust and financial security in our society, were first and foremost the wrong place to be invested.

In our Tijuana story, if law enforcement had been effective, chances are my brother and I would not have been held up and robbed. In the U.S., if regulators had been effective, chances are the world would not have been robbed. In Tijuana, law enforcement was a joke. In the U.S., regulation of our financial institutions had become a joke. The banking and insurance industry's own risk management programs were an even bigger joke at many of the big-name firms.

We work everyday to apply research, and a disciplined methodology, to be among the best in our industry at preserving and growing our clients' assets. It means that we had better be in the right places with our investments more often than not. It also means that more often than not, we had better keep our investments out of the wrong places. It's not easy though.

The months from October to March were especially difficult. Those months played havoc with both our supply and demand research tools as well as our fundamental research. Violent price moves up and down somewhat reduced the effectiveness of our supply and demand tools. Our micro-economic and macro-economic or fundamental research of course had become riddled with uncertainty.

The media, along with Congress, were instrumental in fanning the flames of fear and driving the world into a financial panic. I believe that panic was at its worst in October of last year and then again in early March of this year. It was our judgment that as the S&P 500 melted below 900 that equity valuations had become compelling and that the fear factor was out of hand.

(*continued on next page*)

June 2009

William Baker & Associates, Inc.
CIMA/CIMC
Investment Management and
Financial Planning Specialists
400 Galleria Parkway, Suite 1500
Atlanta, GA 30339

Phone: 770-956-4073
Email: bbaker@wmbaker.com

www.wmbakerinvest.com

S&P 500 Look back

Year	Return
2000	-9.11%
2001	-11.89%
2002	-22.10%
2003	+26.68%
2004	+10.87%
2005	+ 3.00%
2006	+13.62%
2007	+ 3.52%
2008	-38.5%

NASDAQ Look back

Year	Return
2000	-39.18%
2001	-20.78%
2002	-31.25%
2003	+50.76%
2004	+9.14%
2005	-1.4%
2006	+7.87%
2007	+ 9.27%
2008	-40.5%

YTD thru 05/31/09
S&P500 +1.7%
NASDAQ +12.5%

10/11/2007 HI thru 05/31/09
S&P500 -40.85%
Mar 2000 HI thru 05/31/09
NASDAQ -64.86%

** There is no risk-free investment! Investment portfolio values fluctuate and past performance is never a guarantee of future results. "Do no harm" translates into structuring and managing an investment portfolio to conform to a client's risk tolerance and time horizon. Proactive asset allocation, diversification within asset classes, and continual monitoring and risk management of each position are methods we use in structuring and managing portfolios. Our approach includes corroborating fundamental research, with capital markets supply-and-demand research, also called technical research. At times we will use conservative hedging techniques to limit downside risk.

(*continued*)

A second lesson that we can learn from being held up at gunpoint and from the meltdown experience is easier said than done. It is the lesson of removing the emotion from investment decisions. A Star Trek, Spock-like approach to investing works a lot better than an approach that operates out of fear and greed. I suspect that if I or my brother acted on emotion, if we had gone into fight or flight mode, one or both of us would have gotten shot. In the midst of the recent financial debacle, many pulled out of the capital markets at the worst exit points from a sense of overriding fear. By early March many were moving out of stocks when they should have been moving back into stocks. Why? Because emotion was overriding reality. On March 12, our supply and demand research strongly indicated that the reality had become a very excellent entry point to invest in equities!

Our research, our methodology, and our discipline are what we work to continually improve. It helps take the emotion out of our investment decisions. More importantly, it helps to preserve and grow our clients' assets. It does not eliminate risk and downturns, but it does help us to manage risk and, over time, get much better performance than most.

A third lesson is that a brief moment in time needs to be put in the context of a longer term continuum. In just a few seconds the gunman set me back financially. Fortunately, for the long term he didn't disable or kill me and I probably came through the experience a little wiser. The financial meltdown has set many back financially but for just a short moment in terms of longer-term investment time horizons. The meltdown gave me and my associates confidence that the approach we're using, while not perfect, is at the far end, and the good end, of the bell curve. For us, the meltdown also surfaced some ideas on what we can do better in the future to support our investment management mantra, ***Do no harm and make money.*** ** (please read the sidebar)

The final lesson reinforces the need for a continual, systematic way to monitor what's going on around us, what the conditions are in which we're operating. This lesson reinforces our commitment to continual vigilance and appropriate execution, and it also has sparked some additional improvements to our process! Our clients have already begun to see the results of these improvements in their rising statement values.

Let's take a look at the current market situation.

As often mentioned, we closely monitor the strength of the dollar relative to other currencies. What the dollar is doing directly affects our investment strategy. The dollar is now in a downtrend. A weakening dollar usually translates into rising commodity prices including gold and energy, stronger performance in international equities, and obviously it means strength in many foreign currencies. We began discussing this back in January. At this point our investment moves are paying off with our heavier weightings in commodities, emerging markets, and recent moves into precious metals.

Several months ago we mentioned that Treasuries were overbought. Since December in fact, depending on whether intermediate or long term maturity, Treasuries are down from 10% to more than 20%. Corporate bonds in general have moved sideways to up during that same period. Municipals and treasury inflation protected securities have moved up, with certain municipal bonds moving up 10% to 20% or more. The fixed income yield curve remains positive, which means that short term interest rates are low with rates generally increasing year by year out to maturities of 30 years. Intermediate and long rates are rising which in part explains why the prices of intermediate and long Treasuries have been falling. Interest rates and bond prices typically, not always, but typically move in opposite directions. *(continued on next page)*

It should be remembered that bonds including Treasuries, just as stocks, real estate and other investments can have severe up and down moves in price. For many long term investors, right now certain areas of the bond market may well be the wrong place to be. Our aggregate bond relative strength indicator in fact just gave a sell signal when compared to the S&P 500. As mentioned earlier it's not easy.

Since early March, equities and in particular international and emerging market equities, and commodities have been the favored asset classes over fixed income securities and cash equivalents. The risk in the equity markets has moved from a very low level in early March to a relatively high level of risk by the end of May. Right now we are at a place where the level of market risk has increased but the strength of the move up remains intact. In our last bulletin, we mentioned that short term supply and demand indicators had turned down. A few day later, surprise, surprise, those indicators flipped back up to positive. On June 1st, the S&P 500 which had been moving sideways in a channel between roughly 870 and 930 broke out to the upside to above 940. From a technical standpoint that suggests that we may have another positive leg up from here. It should be understood that there are never any guarantees and that the market is at a much higher level of risk than it was in early March when so many had been frightened away. We'll continually monitor what's going on and make adjustments based on our best analysis and conclusions.

The fundamental economic picture right now is largely being driven by global government intervention. You all know that since we are all now stakeholders in General Motors, in banks and insurance companies, and who knows what else. Odds are we're headed for an inflationary period. In short, however, right now economic fundamentals are improving. From what I have read, the Fed and Treasury are working hard to figure out government exit strategies from their private sector intrusions. They're also working hard on inflation control strategies going forward. The basic problem of unemployment and home foreclosures is at the top of their agenda. They've got a tough job!

Our job for our clients is one of constant vigilance and adaptation to changing conditions. The job always includes learning lessons and making improvements. We are committed to doing that, and we are committed to continually work to be the best in our industry at preserving and growing our clients' assets. Please contact us if you know of anyone who might appreciate our help.

* The four asset classes are Cash and Cash Equivalents (e.g. money market), Fixed Income (e.g. Treasuries and corporate bonds), Equities (e.g. stocks), and Alternative Investments (e.g. commodities, real estate)