

William Baker

& ASSOCIATES, INC.

Securities offered and supervised by
Wilbanks Securities, Inc.
Member FINRA/SIPC

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 2008

WHAT IS, IS!

Once upon a time most of us have had a teacher who made a difference. You probably remember one. One of my favorite teachers was Miss Levi. It was Public School No.18 in Paterson, N.J. I guess I was about 11 years old. I figured that Miss Levi was at least 90 years old if she was a day! She was a spinster lady. She was a stern, a no-nonsense, a run-a-tight-ship teacher. She wore wire-rimmed bifocals. Her salt-and-pepper hair as I remember was always fixed in a tight bun. There was no messing around in Miss Levi's class!

One day Miss Levi was teaching us science – temperatures, freezing points, boiling points, that sort of thing. She was into this for a little while when I raised my hand. She said, “Yes Billy”. I responded, “Miss Levi, why does water freeze at 32 degrees; why doesn't it freeze at 26 degrees, or 45 degrees, or some other temperature?” She looked at me. She fixed her eyes on me. She paused. It was an extended pause! It was a long, long pause!

Finally, in a sharp tone. “MIS-ter Baker!” . “Uh-oh!” I said to myself.

Miss Levi continued. “Mr. Baker, I taught your father, I taught your brother, and now I'm teaching you. And only you Mr. Baker have had the colossal audacity (she loved to use that expression) to question a basic law of nature. Mr. Baker, water freezes at 32 degrees because it just does. It just does, Mr. Baker. ‘What is, is!’ Mr. Baker, and you remember that.” And I have, and I still fondly remember Miss Levi too! What a great teacher Miss Levi was!

What is, is! That's so true in life and certainly true in the world of investing.

So far 2008 has been a wild ride. Looking back to 1965, there have only been three other years, thru June 12, that have experienced more up-and-down daily volatility in

the S&P 500 than this year. I am writing this report on June 14th. Through June 12, the only years exceeding 2008 in volatility were 1974, 2001, and 2002. Along with many days of one-percent-or-greater moves, the S&P500 is at this time down YTD minus 7.35%. **What is, is!**

In line with our mantra “**Do no harm and make money!**”* (please read sidebar), we have moved to a defensive, do-no-harm, or wealth preservation mode as of this past week.

Why? As many of you know by now, about 80% of the risk in a stock portfolio is market and sector risk. We use supply-and-demand research to monitor and help manage that risk. Several weeks ago our short term indicators sounded a warning bell that stock prices had begun to move down. Last week our main supply-and-demand indicator reversed down. That means that at least six per cent of the stocks on the New York Stock Exchange have given new sell signals. That signaled that we move to a more defensive posture.

Given a defensive posture, how does that translate to action? There are many right answers. We deal with **what is, is** so with that, here are a few specific examples of some defensive actions we are taking.

Given our present higher level of stock market risk, the odds are that there will be more negative surprises than positive surprises. Therefore, we have already reduced our exposure to stocks and moved that money into assets that don't correlate to stocks.

We have also moved into non-correlating assets where prices are either holding or improving. Natural gas, agricultural commodities, the money market, a strong dollar fund, and the Australian dollar are a few examples. (continued on next page)

June 2008

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

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

NASDAQ Look back

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

YTD thru 5/31/08

S&P500	-4.6%
NASDAQ	-6.0%

10/11/2007 HI thru 5/31/08	
S&P500	-11.1%
Mar 2000 HI thru 5/31/08	
NASDAQ	-50.6%

*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, that is technical research. At times we will use conservative hedging techniques to limit downside risk.

(continued...)

What is, is, and the U.S. dollar has been in a downtrend. Since 2002 it has lost more than 40% of its value. Recently, however, the dollar has given a buy signal, suggesting a short-term move up. It's possible the short term could turn into the long term. If that happens, we will see it. It will show up as a clear breakout up through the downtrend line—the ceiling. If it breaks up through the ceiling, if the U.S. dollar moves into an uptrend, the appletart could be upset for commodities. Part of the reason oil, gold, and commodities have moved up in price is because the dollar has been so weak. In essence, when they convert their weak dollars back to their local currencies, foreign sellers require more dollars for their barrels of oil or bushels of grain, just to stay even.

Because the U.S. dollar recently gave a buy signal we've decided to invest in a stronger dollar. We've seen interest rates rising since January and that too bodes well for the dollar. If the dollar's buy signal does not materialize into profits, we will liquidate that position. We believe strongly in having well-thought-out entry strategies to make money, and well-thought-out exit strategies to keep from doing serious harm to wealth. We have exit strategies for every security in which we're invested.

Bonds are always a consideration as a way to help cushion a portfolio. Right now, though, our supply-and-demand indicators suggest weakness in the fixed income area. Also, they suggest strength in rising interest rates. As interest rates rise, bond prices generally fall, so therefore we're underweighting bonds and bond funds at this time. To the extent that we invest in bonds it would be in a laddered position of individual bonds with varying maturities. One exception! We view high yield municipal bonds as a relatively safe parking place. This group has been battered down beyond what we judge as reasonable. Also, while we wait for them to bounce back up, we will collect handsome dividends.

To the extent that we are invested in stocks or equity positions, in which areas are we invested or watching for opportunities? Also which areas are we avoiding?

We've been avoiding bank stocks for a long time and continue to do so. While some bank stock dividends are very high, we think that those dividends are vulnerable. Many banks will be forced to cut dividends. While the Fed provided a liquidity safety-net to banks, they did not solve the capitalization problems in that industry. That problem will be addressed with a resultant dilution of bank share values. In other words, we generally expect bank stock prices to fall further or to languish for some time. There will be exceptions, but we will continue to avoid this area. **What is, is**, and many of the name brand banks have been extremely poor stewards of the capital entrusted to them!

A few, but not all, stock sectors that we favor include electric utilities, basic materials, and some technology and health care categories. Energy stocks as we said last month have more potential upside but also could experience a rapid decline given their asymptotic rise.

We appreciate your interest, your referrals, and whatever feedback you may share with us. And remember, **What is, is!**