



Client Bulletin

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A WORLD OF UNCERTAINTY, A WORLD OF OPPORTUNITY

Most, if not all, of you are aware of the ongoing chaos in the Middle East and the unprecedented disasters and ongoing crises in Japan. It's a time for prayers, empathy, action, and hopefully a lot of wise decisions with some good luck thrown in.



This week, we witnessed all of this year's market index gains erased in just a few weeks time. Generally, market pullbacks have ranged from a negative 6% to negative 10%; significant drops in value. The volatility or fear factor index also spiked up significantly and remains elevated. The uncertainty and associated market risk remains at a high level.

Specifically, our supply and demand or technical *indicators have shifted from a wealth accumulation to a wealth preservation status*. As mentioned in our recent newsletters, our perspective has been that the equity markets have been over bought, over valued, with too much bullish sentiment, against a backdrop of rising interest rates (since October 2010) and that those factors combine to usually end up with a bad result.

Given our assessment, we had adjusted most all of our portfolios before all of these recent events occurred. That reduced the risk in our portfolios and also positioned us to take advantage of future opportunities. In addition, we have exit strategies for each position that we hold and some of those sell points have already triggered and those positions have been either entirely or partially liquidated. In some cases we have also purchased positions that have been on our buy watch list. Also, our basic strategy is to emphasize securities that generate interest and/or dividends that help to cushion the portfolio in a down market such as this.

To summarize, right now the markets are experiencing a short-term pullback. What we do not know is whether that short-term will turn into a longer-term continued deterioration or a turnaround to the upside. What we do know is that we will have to manage on a continual basis in a world of elevated uncertainty and in a world of opportunity in line with our investment management mantra, *"Do no harm and make money"** (please read the footnote). Our emphasis right now is on wealth preservation and while all of our portfolios are experiencing a reduction in values, we also are comfortable that we have a safe cushion set aside to put to work at lower prices in better opportunities.

*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.