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Investment Insights

March 2008

FLYING IN THE SOUP !

On February 29, 2008, the S&P500 closed lower than it did more than eight years ago, on October 31, 1999. On October 31, 1999 it closed at 1354.12. Last month, February 29, 2008, the S&P closed at 1330.63. The point – if the idea is to make money over the long term, it's important to exercise continual due diligence, effective diversification, and risk management of your investment portfolio over the short term. **In the short term, you can get your head handed to you. Your long term gains can quickly be taken away from you, and then some, with an inattentive buy-and-hold strategy.**

February saw the S&P500 slide 3.48% hammering this year-to-date's S&P 500 performance to a minus 9.33% thru February 29th. From last year's October high, February 29, 2008 saw the S&P500 down 15.9%. As I write this on March 7th, the S&P500 closed the day at 1293, an even lower close than the previous year-to-date low close of 1310 on January 22nd.. This is not good news. What we want to see is higher lows and higher highs. What we're seeing is lower highs and lower lows. Higher lows and higher highs would suggest that the downtrend might be reversing to an up trend. Unfortunately, what we have, lower highs and lower lows, suggest more trouble ahead. Whatever lies ahead, **effective risk management is essential.**

Our investment management mantra is **"First do no harm, and Make Money".*** In practice, to that end, the actual work of investment management, requires excellence in research, analysis, judgment, and execution – it takes continual due diligence and discipline. It requires continual risk management.

Many of you know that many years ago I had the privilege of serving as a navy carrier pilot. To accomplish a mission and survive as a Navy pilot, also required excellent training, judgment, execution, continual risk

management, and perhaps a little luck along the way – not too much different than investment management.

Navigating and piloting an investment portfolio through the current domestic and global capital markets, reminds me of those days and nights of flying off the carriers. Investment management in times like these, specifically reminds me of flying an aircraft in IFR (instrument flight rules) weather conditions.

Most pilots would, I believe, prefer flying on a clear, blue-sky day. Professional pilots however, by mission necessity, often find themselves flying "in the soup" (such as rain or fog, clouds or snow). When in the soup, pilots do not have a visual horizon. Therefore they have to fly their instruments. Why? Because without skill in flying their instruments, they will become disoriented, get vertigo, and likely stall out and spin in. That's just the way it is.

The investment environment is very soupy right now. We know that the credit crisis is bad. We just don't know how much worse it might get. In my judgment, the outcome will depend on the effectiveness of our private and public leaders, in their making and carrying out sound, right, and difficult decisions. Enough said.

We are in the soup, and until we're out of it, we have to rely on our instruments. The fundamental economic and capital markets environment is right now a chaotic morass of uncertainty. We just don't know how much worse it might get! Our instruments are our many supply-and-demand indicators. Those indicators help tell us in what direction we should move money to accomplish our mission of **First, do no harm and make money*.** (continued)

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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 2/29/08	
S&P500	-9.7%
NASDAQ	-14.4%
10/11/2008 HI thru 2/29/08	
S&P500	-15.9%
Mar 2000 HI thru 2/29/08	
NASDAQ	-55.2%

*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.

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Without getting into details, those instruments are telling us that we have moved to a defensive or wealth preservation posture. We were in an offensive (make money) position for about six weeks, but that just turned around last week. Currently, our instruments point to cash and bonds, foreign currencies, precious metals and commodities over common stocks. In fact, our major stock indices – both domestic and international – generally are in downtrends. U.S. stock market performance ranks way down around 37 amongst the world markets – yes, we do need to invest globally. Nonetheless, now, both US and global stock market indices, are mostly in downtrends.

Downtrends, like down drafts when flying in stormy weather, should be avoided. I remember one stormy day flying in the soup, and suddenly the aircraft was caught in a downdraft. I was on the instruments, flying level at an altitude of about 1200 feet. At that point, mother nature took control and began driving the aircraft down. The altimeter began to unwind. I was flying the instruments, cursing, praying, and sweating. I added power to no avail. We just kept going down. The ground was coming up quick. Would we be driven into the ground? Well, we finally flew through it, leveling off just a few hundred feet above the ground. We were lucky. But we've read about accidents where pilots and passengers were not so lucky and a downdraft did them in. We want to avoid severe downdrafts if we can.

Our portfolios have avoided the worst of the stock market downdraft since last October. Every month beginning last October has been a down month for the major indices, but fortunately not for our clients. We will do our best to continue using our "instruments" to navigate and pilot safely through this period. We expect that we'll be well positioned when we finally break out of this soup that we're in. We just have no idea when that when will be. What we have are our technical supply-and-demand instruments that will help guide us. At some point, demand will begin to take back control, and we will begin to see higher lows and higher highs in market prices. There will be more "lift in the air", it will be a better time for flying. It will be a better time to make money.

Please call us with any questions or referral suggestions.