INVESTMENT MANAGEMENT AND FINANCIAL PLANNING

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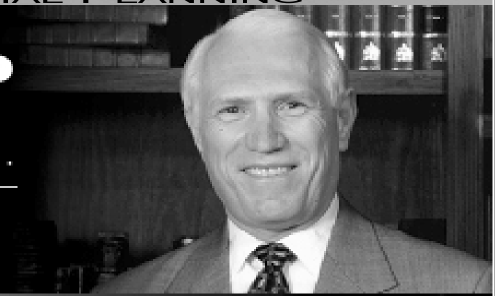
& ASSOCIATES, INC.



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KICK THE RUDDER

Once upon a time, as a student naval aviator, one of the flight maneuvers I had to learn was the stall, spin, and recovery. The way we entered the spin was by pulling back the throttle, reducing power, raising the nose, and decreasing the speed of the aircraft. In that process, the wind drag on the aircraft got the plane shuddering. Then, one key action was to push the rudder pedal full in. At that point, the bird flopped over, no longer flyable, and entered into a spin.

In a spin, the ground comes up at you very fast. It's a disconcerting feeling. If you did nothing to recover, you would spin in, crash, and die. That was the very simple fact. The objective was to get out of the spin and regain control of the aircraft. To do that, one main step was to kick and hold in the opposite rudder pedal to the maximum. There were other actions such as increasing power, but kicking the rudder in the full opposite direction was critical. That broke the aircraft out of the spin to renew normal flying. And by God, it worked the first time I did it! I kicked in the rudder, came out of the spin, and renewed normal flying

The domestic and global economy since December 2007 has stalled out in the worst way. It's in a downward spin. Business is not spending, credit is still clogged up, and consumer spending is in the tank along with jobs. The government cannot do nothing and expect that business, banks, or consumers who aren't willing or able to spend, will get us out of it. The private sector economy is all snarled up, therefore governments around the world are intervening. Governments are kicking the rudder with the intent of moving the global economy out of its spin and back to normal flying.

Economists of both political persuasions generally agree and understand that coordinated government action is required. Also, the majority of business and government leaders and the people in this country know something needs to be done. There's lots of debate and opinions on the right things to do, but the fact is that actions are being taken. Some will work and some will probably not work, but actions are being taken. The rudder has been kicked and I would like to think that Fed Chair Bernanke is right when he suggests we could be flying out of this economic spin within a year.

There's a problem though.

At this time, the continued downtrend in capital market prices and portfolio values is a no-confidence vote on economic recovery. A two-month drop of about 19% in the S&P index since January 1, 2009 is a pretty strong no-confidence vote. Part of the reason for this no-confidence vote is that the government is still figuring out what to do especially regarding the bank and credit, and automotive industry problems. Also, there has not been enough time for the economic stimulus and home mortgage programs to kick in. And finally the government is not doing a good job of selling or explaining its programs. The bully pulpit has been turned over to media gloom-and-doomers. Until clarity and confidence emerge, capital markets and investment portfolio bottom lines will likely continue to languish and drift lower.

A continued drop in stock prices could be in the cards. Theoretically, everything could go to zero and if you watch TV you might think that will happen. I'm looking at worst case statistical scenarios where the S&P 500 could go down to about 575 and the DJIA could go down to 4400. I guess those horrendous worst-case figures could go along with the gloom and doomers who think that government intervention will do nothing more than screw things up even worse than they are.

Is it economic and investment Armageddon? TV talk sure sounds like it. However, it is in this kind of "it's awful and it's never going to end" news environment that markets will suddenly turn around. When will an upside move happen and what will the recovery look like? No one of course knows. (*continued on next page*)

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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%
2008	-38.5%

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%
2008	-40.5%

YTD thru 02/28/09

S&P500	-18.62%
NASDAQ	-11.15%

10/11/2007 HI thru 02/28/09

S&P500	-52.71%
NASDAQ	-50.3%

*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.

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When we talk about recovery, there are two parts to it. One is the economy itself. That deals with jobs, housing, credit markets, new industries being created, and reductions in our national deficit. It deals with a turnaround in the personal savings behavior in this country, and also Obama administration economic objectives regarding energy, healthcare and education. It has to do with fiscal and monetary policy and more.

We'll see a recovery in capital markets and portfolio values before we witness economic recovery. If Bernanke is correct about an economic recovery beginning later this year or early next year that would mean that a recovery in portfolio values could begin in a matter of months. If Bernanke is correct! My guess would be that he is correct since his viewpoint is also corroborated by other fundamental macroeconomic research firm forecasts. The underlying assumption is that government gets more right than wrong in their corrective actions.

Last week the major stock indices broke down through their last November lows. In the short term, that breakdown through last year's floor was not good news. It was also reason to take some additional defensive action. Diversification is always a primary means to manage risk. Diversification across and within asset classes given the market conditions, as most of you know, determines more than 90% of the performance in your portfolio. Since October 2007 the S&P 500 is down almost 57%, and most of the best, well-diversified mutual funds are down more than 35%. Other than cash, treasuries, and for a short time precious metals, there have been few hiding places since last October.

At this time our portfolios are primarily diversified across cash equivalents, fixed income securities, and equities. The U.S. dollar and cash equivalents (money markets) continue to be a primary means to preserve capital. Some areas of the municipal and corporate bond markets continue to be attractive. Treasuries and precious metals at this point are overpriced and too risky. Of all asset classes, selective municipal and corporate bonds and stocks appear to have the best upside on a longer term basis. Some alternative investments such as energy and commodities are hard down but they also remain in a downtrend for the time being.

Recently, fear, uncertainty, and a bit of desperation and panic have been relentlessly driving asset prices down. It is our judgment that at some point, assuming that government actions have a positive effect, that the fear factor will further dissipate, and money will begin flooding back into stocks. In essence, while recognizing the breadth and depth of fundamental economic problems, I believe that the current extreme doom-and-gloom sentiment will be the launch platform for a strong rebound in the capital markets. Patience and preparation is now the name of the game as we move through this trough of negativism.

Going forward, it will be extremely important to move money into those asset classes that have the best potential for upside recovery. We feel we are better positioned than most in terms of our research, tools and judgment to do that.

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(*continued*) The below chart shows that Jan-Feb 2009 performance is the worst in history. The far right column shows for each year, the remainder of each year's performance. Interesting to look at, but there's really no way of knowing how this year is going to play out. At this point having money mixed across cash or cash equivalents and equities is we believe a common sense approach. The stock market is extremely oversold here but for now still remains in a down trend.

Best and Worst January - February Periods for the Dow Jones Industrial Average

Year	Jan-Feb	Mar-Dec
2009	-19.52%	????
1920	-14.97%	-21.09%
1933	-14.72%	92.00%
2000	-11.91%	6.52%
1978	-10.71%	8.47%
1913	-8.59%	2.75%
1984	-8.26%	4.93%
1916	-8.19%	4.36%
1948	-7.93%	6.29%
1910	-7.78%	-16.35%
2008	-7.53%	-28.45%
1918	8.08%	2.25%
1943	8.63%	4.76%
1930	9.11%	-39.29%
1991	9.44%	9.95%
1899	10.34%	1.71%
1986	10.50%	11.68%
1976	14.10%	3.29%
1931	15.65%	-59.07%
1987	16.52%	-12.82%
1975	19.93%	15.34%

courtesy of Dorsey, Wright & Associates

We remain prudently defensive, and accept the view that at this point patience is a virtue. In our patience, we continually look across and within asset classes to ferret out the best opportunities for future portfolio growth. It looks like there has been alot of what we call climactic selling going on which is another sign of a possible rally. Suffice it to say that for the time being we're in a very challenging environment.

At this point, we believe the rudder has been kicked and it won't be too long before we begin to pull out of the spin, begin to fly normally, and begin to regain altitude. Until that happens though, **Do no harm and make money*** (please read the sidebar) in this environment requires some patience and fortitude.