

William Baker

& ASSOCIATES, INC.

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 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

May 2008

It's a Small, Small World

Once upon a time I got to meet Walt Disney – had a chance to shake his hand – and to tell him how I had long been hooked on his Donald Duck and Mickey Mouse comic books. He just smiled his kind and benevolent smile and told me he felt the same way.

(A sidenote – Walt Disney created Mickey Mouse whose birthdate is Nov 18, 1928, and Donald Fauntleroy Duck whose birthdate is June 9, 1934. Walt Disney died in 1966, before the opening of his Orlando Disneyworld Park in 1971.)

At the time, I was a midshipman on a foreign exchange cruise aboard the Almirante Garcia, a Venezuelan destroyer that had originally been built in Italy. From Puerto Cabello, Venezuela, we had sailed through the Panama Canal, and then up the coast to visit California on a goodwill mission (they were different times from today). Part of the itinerary for the Venezuelan midshipmen and me was a visit to Disneyland and a personal meeting with Walt Disney.

Most, perhaps all, of you have probably enjoyed the Disney theme park ride, It's a Small, Small World. It's the one ride that captivates us with Walt Disney's wonderful vision of the essence of our humanity, that good essence that binds all cultures and peoples together. Granted, it's a one-sided vision, and at this point it remains a far stretch. Nevertheless, It's a Small, Small World sure makes most of us feel really upbeat by the time we get out of our seats to go on to the next ride.

From an investment standpoint, we can say that we have arrived in terms of it being a Small, Small World. Just in the past few months, we've put investment dollars to work in foreign currencies (at the moment, the Australian dollar), in developed and emerging markets around the world, in commodity investments, some of those commodities being mined in countries with strange-sounding names. We also are invested, usually through

funds, in U.S. companies, many of which have or are developing overseas markets for their goods and services.

There are diverse viewpoints on the good, the bad, and the ugly of our global world of commerce and trade. My intent here though is not to get into those issues. It is to make the point that we can now envision the entire world as a globe with a big neon sign sticking up at the North Pole stating that "The World is Open for Business". (I borrowed that expression from my supply-and-demand research provider, Dorsey Wright & Associates, Inc.) For our investors it is indeed a Small, Small World and a world full of opportunities and also full of risks!

Our global research, perspective, and investment actions over the past few years have allowed us to differentiate ourselves – very positively – during a very demanding investment period. I am certain that the challenges will continue unabated, and am determined that our team will stay ahead of our global investment challenges. Our investment mantra, **Do no harm and make money***, encapsulates two lines of thought.

To make money* in the capital markets necessarily requires that we assume risk. There is no risk-free investment! When an investment is made, be assured that the risk is there, the risk is real, and it is what it is. It is usually in the high flying times that we ignore it, minimize it, and perhaps begin dwelling only on the upside. The truth however is that to make money in the capital markets require that we assume risk. That risk is a part and parcel of investing and it is not going away.

The second line of thought is that **To do no harm***, requires that we understand the risk and be very effective in monitoring and managing that risk.
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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 4/30/08

S&P500	-5.6%
NASDAQ	-9.0%

10/11/2007 HI thru 4/30/08

S&P500 -12.1%

Mar 2000 HI thru 4/30/08

NASDAQ -52.2%

*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.

To dwell on the upside in high-flying times is downright dangerous. To take advantage of the upside and at the same time monitor, and protect against, the downside is our professional expertise and endeavor. And we do that for every investment in which we have a position. It requires an understanding that there will be gains and also that there will be losses. It requires a disciplined methodology to let winners run and also to cut losses early enough to prevent serious harm from being done.

You may be wondering how you determine what the reward or risk is in a stock or fixed income investment in a faraway land. Heck, in most cases we don't even speak the language! Not so! There is a common language that we do speak and it applies anywhere in the world. It's the language of supply and demand. Our price-driven supply-and-demand research can be applied equally to mangoes in a Malaysian market, bananas out of Central America, or the price of tea in China.

Since we're in the business of investing, we apply it to global capital markets, industry sectors, currencies, commodities, and individual securities around the world. The body of research that we use is very robust. It is a powerful tool in helping us see what is actually happening in the capital markets around the world. It applies to markets, sectors, as well as to individual mutual funds, stocks, bonds, the US dollar relative to other currencies, commodities and more. We monitor our positions daily, and apply both our fundamental research and our supply-and-demand research to make money for our clients and to manage the risk along the way.

Today the US accounts for about 37% of the world's equity capitalization (that is the collective sum of the outstanding shares of all individual companies multiplied by each company's market price per share). Not too many years ago US capitalization represented more like 60 or 70% of the world's equity capitalization. In about 1984 the economic center of gravity (my term) moved from the Atlantic to the Pacific – that was the period when for the first time there were more commercial flights over the Pacific than the Atlantic. The world will continue to change rapidly, some of yesterday's opportunities will fade away and new opportunities will arise. Markets around the world will ebb and flow and our intent is to stay ahead of the curve on these ebbs and flows and do our best to have our clients' money optimally invested.

At this juncture we remain over-weighted in global equities with a leaning to mid- and large-capitalization growth stocks. We have reduced exposure to the money market, to fixed income securities; and we have increased our positions in natural gas, utility companies, agricultural commodities, basic materials, certain emerging markets, and the Australian currency. Certain areas of the world such as China and India in our judgment are currently overpriced. The oil sector after an asymptotic rise in price, while still having upside potential, in our opinion carries the risk of a very rapid drop in price.

Remember that markets inhale and exhale so values will fluctuate – what we routinely watch for are distinct breakouts on the upside, or breakdowns on the downside, and in those cases act to adjust our allocations.

We value your interest, and we gauge our business success by the satisfaction of our clients, and referrals from our clients and our readers. We thank you for the opportunity to be of service. Your feedback and your referrals are always appreciated.