



# Client Bulletin

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## Bear Market Rally or Something More?

The major indices have rallied close to or more than 40% (e.g. S&P 500 rallied 39.4%) in just two months, from early March to early May. Our supply and demand research indicators put us back on the offensive on March 12<sup>th</sup>, less than a week after the rally actually began. Last week however our shorter term indicators suggested that we begin reducing exposure to stocks and raising cash.

Even with the recent rally, *the backdrop for now remains a longer term downtrend that appears to be in a bottoming process.* At some point in the future there will be a turn around. We just won't know when until after the bottoming process is complete and a new uptrend is firmly in place. For now we're happy that our research, and the portfolio adjustments we made, took advantage of this Bear Market rally to nicely improve our clients' portfolio values over the past several months. While our shorter term indicators are suggesting caution our intermediate and long term indicators for now remain positive. This is a business of constant, disciplined vigilance.

Commodities and international equities, especially emerging market equities, remain favored asset classes over bonds and cash equivalents. That being said, we have had a very strong rally in equities over a very short time period. Our indicators now suggest a higher risk level for stocks and therefore near term caution. With that, we've felt comfortable nailing down some nice gains. We will put that new cash to work in equities and commodities as opportunities unfold.



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## Corporate Accounting and Governance

A few of our clients held IBM stock. As you know, we corroborate fundamental micro- and macro-economic research with capital markets supply and demand research. Our recent sale of IBM is a good example of how we apply this research. IBM looks pretty good from a supply and demand standpoint. It has been trending up in an orderly fashion. However, in reviewing its accounting and governance rating (AGR), over the past year or so IBM's rating has fallen to a 13 percentile level. That means, according to Audit Integrity, Inc. analysis, that IBM carries a high level of accounting and governance risk. That was the reason we liquidated IBM.

We want to be invested in companies that use average to conservative accounting practices and exercise good to excellent governance. There are two Atlanta examples I would like to share with you regarding Audit Integrity, Inc. ratings. *Coca Cola* has a 29% AGR rating. Twenty nine percent is a poor rating and suggests very aggressive accounting and substandard governance. *Coca Cola* has by the way had a low AGR rating for years. Supply and demand research on *Coca Cola* has since 1996, except for a few periods, been neutral to negative on *Coca Cola* stock. *Home Depot* also had a poor AGR rating but over the past year its rating has moved up to a much better 65% AGR score. With former CEO Nardelli's departure, *Home Depot* seems to be working with some success to improve its accounting and governance practices. Supply and demand research, negative for *Home Depot* since 2005, just began to turn positive last year, in line with the change in its AGR score.

I hope the above discussion sheds a little more light on how we corroborate fundamental with supply and demand research.

We work continually to be the best in our industry in preserving and growing our clients' assets. Our business success is in part measured by referrals from our clients. Please contact us if you know of someone who would appreciate our help.