Client Bulletin

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OPPORTUNITY KNOCKS

We have to look back to 1974 and then farther back to the 1930's to see the one-year market devastation (S&P 500 minus 45.8%) from the October, 2007, high to the October, 24, 2008, low, the date that I'm writing this. **Year-to-date the S&P 500 is down more than minus 40%**, and for this month alone, thru October 23rd, the S&P 500 has crashed more than minus 24%.

Can it get worse from here? Sure it can. Will it get worse from here? That's anybody's guess. What's my guess? We're not yet out of the woods. We have already tested and broken the October 10, 2008, bottoms, and we may have another selloff. However, in the months ahead the market will probably enter into a significant rally. There is no guarantee and there's no way to pin down when. Stock valuations, though, are at or near bargain levels, and **at these prices opportunity knocks** loudly.

Let's review what is, and perhaps what is in store.

We've witnessed a historic crash in U.S. and foreign markets. This crash is the result of two forces. First is that leveraged hedge funds and other leveraged investors have been and are being forced to sell assets to raise capital to meet margin calls. In simpler terms, these hedge funds in cahoots with banks and investment companies, borrowed other peoples' money to invest. They did not expect the risk in their leveraged investments to go against them, but it did. Their gluttonous party came to an end. The hedge funds were then forced to sell their investments driving security prices even further down in the process. Why? To pay back what they had borrowed from the banks and investment houses. Also, to return money (what was left) to their fleeing and panicked investors. They had to come up with real money to do this. This forced selling of leveraged investments is what's meant by the term de-leveraging. As this fire sale got worse it caused panic selling by others. These were the frightened innocent bystanders. They were the ones who sold either to raise spending money or to be able to sleep at night.

Initial market lows occurred on Friday, October 10^{th}. Since then, stock prices, and many of our supply-and-demand technical indicators have been oscillating up and down wildly. This kind of fierce oscillation is typically indicative of a market trying to find a bottom. In fact some new bottoms have occurred since October 10th. The tug of war between supply (lower prices) and demand (higher prices) continues. On the one hand, we know that the markets have already washed out much risk in this bottoming process. On the other hand, where exactly that bottom is, or when it'll occur, remains a mystery.

On the bright side, there are good reasons to be positive in our outlook for stock prices. Oil and gas prices are going down freeing up more money and reducing expenses for individuals and for companies. Credit markets are improving helping to unfreeze business activities. Massive and coordinated global government intervention is underway on many fronts to avoid a complete meltdown. These government measures are just starting. It'll take time, but problems will be addressed and conditions will improve.

We talked earlier about another very important reason to be confident. Stock valuations, for the first time in years, are fair and not over-priced. Given these after-crash valuations, there's a good chance that we're near the beginning of a multi-year uptrend in stock prices. Will there be more bad news? Probably. Are current market prices reflecting this bad news? My answer would be for the most part yes, and it affords us a terrific buying opportunity ahead. (*continued on next page*)

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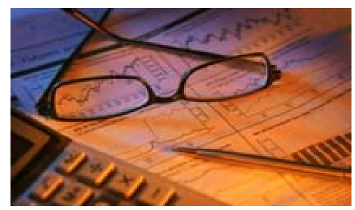
The major stock indices are extremely oversold. One way of looking at it, is that current stock prices are like a bungee jumper toward the bottom of the jump. A reasonable expectation would be that the bungee cord will do its job, take over, and begin pulling prices back up. However, there is no way of telling with certainty how far up or exactly when that will happen!

Extreme sentiment from large groups often coincides with tops or bottoms. For instance right now there is an extreme degree of pessimism among individual and professional investors. My view of this rampant pessimism, being voiced by so many, is that it is probably coinciding with a bottom. Therefore, this high level of pessimism is more like a ray of bright sunshine breaking through the clouds. We'll see.

There has been a very serious breakdown in trust of the markets. A handful of financial industry people, unchecked and in fact aided by a broken political, regulatory, and oversight system, have made themselves huge amounts of money. They have leveraged and gambled with our money to enrich themselves. They have been helped by the big banks, investment houses, by regulatory and rating agencies, and by a dysfunctional political system. They've privatized profits for themselves. They've socialized losses on the backs of everyone else. Prosecution of criminal behavior and a comprehensive reform of the regulatory system is already in the works. We need a purge and cleanup of this corrupted system, and that will take some years. It will also take some years to rebuild trust.

That being said, there are plenty of well-managed companies and funds with excellent leadership, stewardship, and a commitment to shareholders. Our research and experience give us an excellent edge to effectively invest our clients' assets, begin rebuilding wealth, and to manage risk along the way. That research and experience kept you away from banks and mortgage-backed securities and the enormous losses associated with those investments. It put you in front of commodities and international equities as they rose in price, and guided you away from those investments as risk rose to unacceptably high levels. It helped you avoid much of the brunt of this severe Bear Market, which started in October, 2007 and continues through this recent market crash.



This is a turbulent time in the markets, but with security prices beaten down as they are, opportunity knocks. We believe we are in a much better position than most in our industry to take advantage of these opportunities. And, we believe opportunity is here!

In addition to the October Newsletter, there have been three Client Bulletins this month. Our intent was to keep you informed as best we could, during what for most of us, has been a once-or-twice-in-a-lifetime tsunami in the capital markets. I expect that November will get us back to our more normal routine of just sending out our once-a-month Newsletter. At least I hope so! If something unusual occurs though, be assured that we will do our best to keep you well informed.

We work continually, every day, to be the best in our field in terms of growing and protecting our clients' assets. Please contact us with any suggestions or feedback. Also, if you know of anyone who might need our help please let us know and direct them to our website: http://www.wmbakerinvest.com/
Our archived newsletters, bulletins, and other company information, are located in the blue box in the upper right corner of the home page.