

William Baker & ASSOCIATES, INC.



Securities offered and supervised by Wilbanks Securities, Inc. Member FINRA/SIPC Investment Advisory through Wilbanks Securities Advisory 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

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AROUND THE WORLD

Once upon a time, I received a bright green (without the dollar), wooden yo-yo as a birthday gift. Most of you probably had a yo-yo and perhaps learned how to do some tricks with it. Let's face it a yo-yo can get pretty dull just making it go up and down. I learned a few tricks like Walk the Dog, and Rock the Baby but the one I liked most was Around the World. Learning to do Around the World successfully gave me a lot of satisfaction.

Yo-yo's can be used to draw some analogies to investing. One analogy is that investing in the stock market can be pictured in your mind as walking up a hillside with a yo-yo. The idea is that portfolio values will move up and down like the yo-yo. As you walk up the hill though, even when the yo-yo is in its down cycle, longer term its overall direction will be up.

The satisfaction of the Around the World yo-yo trick is analogous with the satisfaction that can be gained by opening up our investment perspective to investment opportunities around the world. The greatest growth going forward will be in the emerging and frontier markets and it's not only satisfying, it is also smart to seek out opportunities not only in the U.S. but across the globe. It is also worthwhile to consider investing in U.S. companies that are building a global footprint.

This year, the major market indices have been yo-yo'ing up

and down in a sideways trading range. The S&P 500 for example, since January 1 has moved up and down in a trading range between about 1030 and 1130. On September 20th the S&P finally broke up through that ceiling of 1130. That is a positive sign for potentially more upside in the weeks and months ahead.

When yo-yo'ing in a range bound fashion it's kind of like witnessing a tug-of-war between supply and demand with great uncertainty as to which side is going to win. The real concern is that if it breaks through the floor to the downside that could portend significant more downside in portfolio values. On the other hand a breakout to the upside through the ceiling suggests the potential for higher prices ahead. I reiterate, there are never any guarantees.

There are a range of supply-and-demand indicators that now suggest that the technical risk has subsided. The below chart graphically depicts the recent trading range of the S&P. The recent breakout spiked it through the 1130 ceiling to above 1140. From a technical standpoint that is good news. *(continued on next page)*



Chart Courtesy Bigcharts.com and RBC Wealth Management

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William Baker & Associates, Inc.
CIMA/CIMC
Investment Management and
Financial Planning Specialists
400 Galleria Parkway, Suite 1500
Atlanta, GA 30339

Phone: 770-956-4073
Email: bbaker@wmbaker.com

www.wmbakerinvest
.com

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%
2009	+18.9%

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%
2009	+30.5%

YTD thru 8/31/2010

S&P500	-.6%
NASDAQ	-.7%

10/11/2007 HI thru 8/31/10

S&P500	-32.5%
Mar 2000 HI thru 8/31/10	
NASDAQ	-58.1%

*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.

** William Baker & Associates owns LOW stock

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What about the fundamental economic picture? A few days ago, the National Bureau of Economic Research announced officially that the recession that started in December 2007 officially ended last year in June 2009. That rules out a double dip within a single recession period. It does not mean that we cannot enter into another recession. That could happen. Recent leading economic indicators have been weak and there is by definition a lag between leading and coincident economic indicators. As new economic data comes in over the weeks and months immediately ahead there will be much better fundamental clarity in terms of both the economy and investing.

Unemployment, tight credit, and the housing problems remain major hurdles that need to be overcome. There are some positive fundamentals though. There is a growing middle class and therefore more demand for goods and services around the world in the emerging markets. Those markets are often strengthened by the fact that they are not marred by the consumer debt problems that got the U.S. in trouble with the buy-now-pay-later mentality. Another positive sign is that demand for new technology is forecast to be up significantly in the year ahead. Corporations have hordes of cash that they will be spending to upgrade their information technology and other capital infrastructure. So, in spite of the head winds that still face us we see some tailwinds in the making. As mentioned above, the economic information in the weeks ahead will be very telling in terms of the economy and the investment climate.

No matter what the investment environment, we remain pragmatic and prudent when it comes to managing those accounts that have been entrusted to us. We do our best to do so and we continually work at improving our tools, methodology, and performance. There is a great deal of price-fluctuation-noise in the short term. Investing is a process in which performance is best measured over an entire market cycle. Patience and a longer term viewpoint are always sound watchwords with regard to investing.

Most of the risk in a portfolio is market and sector risk. The level of market and sector risk has been high most of this year. Given that, we have placed emphasis on investing in individual dividend-producing stocks that would have strong comeback power in the case of another market downturn. We normally limit the exposure to individual stocks to about 5% or less in a portfolio. That would limit the damage if a particular individual stock went down significantly in price. With diversified funds, the diversification is already built in so a larger position size is appropriate.
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Lowe's is an example of an individual stock that we have in many of our portfolios.** Lowe's stock price has dropped from about 32 to the low 20's where we purchased it. Its price was driven down by the economic slump in housing. However, Lowe's has a sound business model, a track record of good accounting practices and governance, and it is expanding in international markets. It is currently paying a 2% dividend and has a record of annually increasing its dividend payout. Our longer term target is a more than a 50% capital gain to the mid to high-30's. There are no guarantees. Fluctuations in its short term price are expected, but with time, we think that this well-managed, excellent-value company will pay off in solid principal and dividend growth.

There are many right answers to investing. Given the aging population and the concern that people have for safety and income there are a variety of investment products specifically designed to meet those needs. Our investment management mantra **Do no harm and Make money*** (please read the sidebar) is a goal for every one of our accounts. We do that through proactive management across more than six asset classes. As of a few days ago the top two relative strength asset classes are international and domestic equities which as a class now outrank cash, fixed income, commodities, and currencies. A few days ago, Domestic Equities finally overcame cash in terms of relative strength.

For those who want to avoid any downside in the market, have a need for lifetime income and continued growth there are also products designed to do that. It's a matter of asking the question and being made aware of what is available to best match a person's investment growth, income, and safety requirements.

Our business success is in part determined by the referrals we receive from our clients and friends. Please give us a call if you see a need for our services in any area of wealth management.
