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Investment Insights

September 2009

TEMPLE OF DOOM

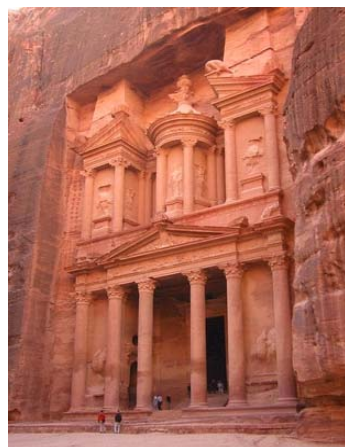
Once upon a time, I journeyed with my son and daughter, to visit some lands of the middle east. In all we visited Jordan, Syria, Israel, and Egypt. One of the places that we especially wanted to see was the Temple of Doom made famous by the Indiana Jones film.

The Temple of Doom is located in Petra, Jordan. Petra was once a thriving ancient Nabatean city, a natural fortress and oasis, and a control point for caravan trade between East and West. It was a thriving city more than 2,200 years ago. Now it is a wondrous archeological site. It was not discovered by the modern western world until 1812.

We spent the night in a very stark and solitary cinderblock motel outside of the entrance to Petra. In the morning, we saddled up our horses to ride through the very narrow gorge into the ancient city. Petra became a Roman province in 106 A.D. and we actually rode our horses over an old Roman road bed of carved stone blocks. Deep grooves, etched in the road bed, made by the Roman chariot wheels, were (and still are) very visible. The ride in from the desert through the gorge with steep, vertical cliff walls on either side was a about a mile and a quarter. The narrow gorge, really a vertical crack in the cliff, was in some places only five to ten meters wide.

As we neared the end of the gorge, we came around a bend and there, dead ahead, was one of the most spectacular manmade scenes that I had ever witnessed. It was the Temple of Doom. It was the first thing we saw as we entered the cliff-surrounded city. The ancient city itself was off to our right with student and volunteer archeologists hard at work scraping and sifting away at the dirt floor of the old city.

The first thing to do of course was to go into the cavernous depths of the Temple of Doom. Perhaps I could discover some ancient treasure that Indiana Jones might have overlooked. So I dismounted and rapidly headed to the temple's entrance. It was a lesson in the power of Hollywood's artistic license. For upon stepping up to the entrance, the cavernous depths it turned out, were only about three or four feet back into the solid rock of the cliff. No, I could find no moving walls, no secret passages, and to my



(Temple of Doom in Petra, Jordan)



(The remarkably plain interior)

disappointment no overlooked treasure. Just solid rock as old as the earth itself.

The Temple of Doom is in fact is a very beautiful facade carved into a solid sandstone cliff opposite the entrance to the city. Very impressive yes, but it is a stone-cut facade, a very gigantic and beautiful ancient work of art. It is not and never was a real temple. The Indiana Jones' Temple of Doom in reality is but a façade. It is a breathtaking façade, a tribute to the ancient artists and society that created it, but still a façade.

We have facades in the investment world too, however, they are not what we would call a tribute to those who create them.

One of our constant endeavors in managing portfolios and investments is to determine the difference between what is a facade and what is real. The recent Madoff affair is the epitome of an investment façade that duped investors, destroyed wealth, and damaged lives. Those who have invested in our major banks over the past several years unknowingly had their money invested in facades. Even being invested in the domestic capital markets, which were supposed to be regulated to protect public investors, was to a degree, investing in a façade. Ten years ago many of the dot com companies turned out to be nothing but facades. Investing in facades is kind of like putting your assets into a Temple of Doom. Better not to do that! *(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

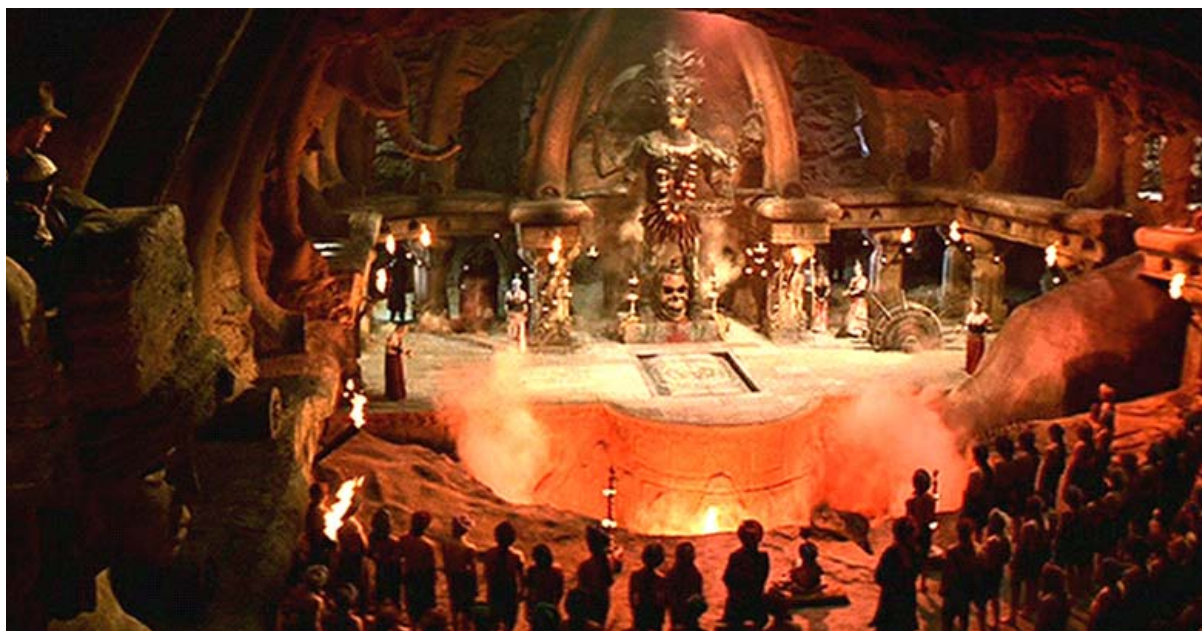
2000	-39.18%
2001	-20.78%
2002	-31.25%
2003	+50.76%
2004	+9.14%
2005	-1.4%
2006	+7.87%
2007	+ 9.27%
2008	-40.5%

YTD thru 08/31/09

S&P500	+11.5%
NASDAQ	+21.5%
10/11/2007 HI thru 08/31/09	
S&P500	-34.34%
Mar 2000 HI thru 08/31/09	
NASDAQ	-60.19%

*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.

(continued)



(Indiana Jones and the Temple of Doom)

What about today? Yes we avoided a complete meltdown of our financial system over the past year but are there still facades out there? The answer is yes. And more important is that we accept the fact that there will always be facades that will occur within almost all investment asset classes. Much work has been and is being done to prevent these facades but there will always be a few bad apples who figure out a way to game the system and steal money from public shareholders. On balance though, once the systemic problems are fixed, I believe that publicly-traded investment facades will become the exception.

In our investment practice we use a very disciplined approach and an array of research tools to help us steer clear of these facades and other bad investments. That approach aims at stacking the odds in favor of allocating money into substance and growth and when things go wrong to quickly cut losses. There are never any guarantees but through wise allocation and continual due diligence over a market cycle (peak-to-peak or trough-to-trough) our approach tests out very well. Our approach is to manage growth, manage risk, and remove emotion from the investment decision process. What is our research telling us right now?

Our supply and demand research suggests that demand (rising equity prices) has been firmly in control since July. Having said this, one important cautionary note is that the market has moved into an over bought condition. It could continue getting more over bought from here or it could exhale and pull back some. That is the technical situation.

The fundamental picture is more confusing to us and revolves around the impact of rising unemployment, rising home foreclosures, a deterioration of consumer spending power, continuing bank problems, and uncertainty of corporate top line earnings growth. Offsetting factors are that there is a great deal of money that has been injected into the system from central banks around the world. There is also a great deal of money sitting in money markets earning next to nothing. Corporations have to replenish depleted inventories, and stimulus programs will continue to kick in. I could go on and on, but suffice it to say that the fundamental economic picture remains pretty murky to us. Even though this recession may have or will soon come to an end, will the private sector pumps be primed enough, and will credit be flowing sufficiently, to keep us from entering another downturn?

We continue to invest with an emphasis on international and domestic equities but also with some money in non-correlated asset classes such as bonds, the Swiss frank, and the money market. The dollar remains in a downtrend and we watch it closely. As always we have a game plan and continually work diligently to **Do no harm and make money.*** (please read the sidebar)