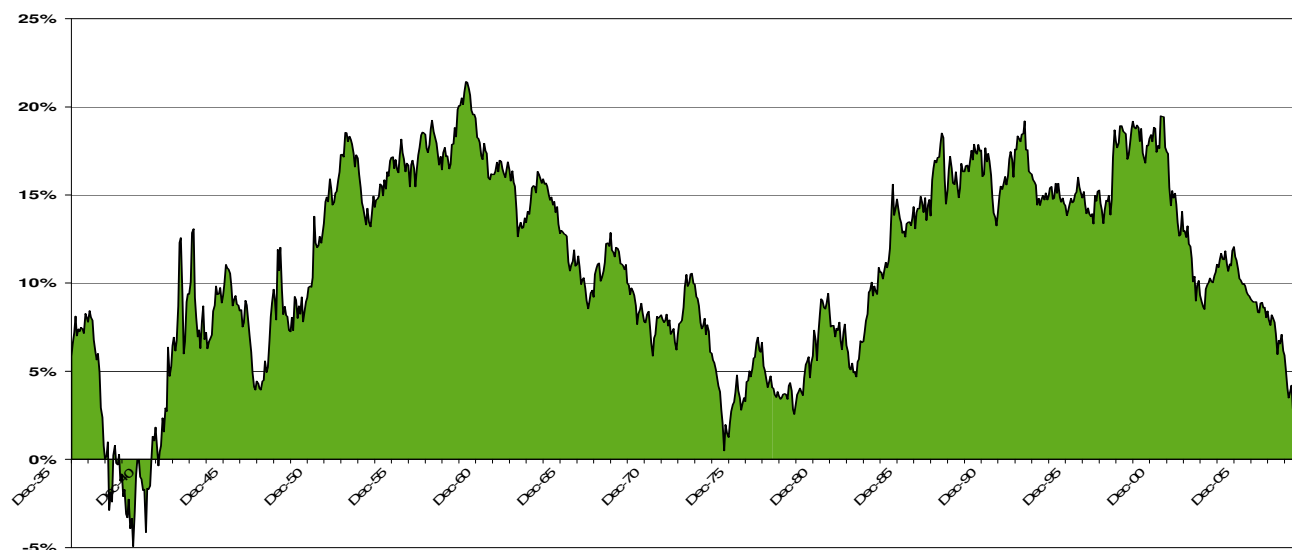


investment grade corporate bonds fell 3%, municipal bonds fell 2.5% and high yield bonds lost 26%. Such was the demand for some U.S. Treasuries that their yields were pushed down to zero, while the yields on most other bonds rose to very attractive levels. The difference in yield between investment grade corporate bonds and 10-year Treasuries are now at levels not seen since the Great Depression creating some appealing investment opportunities.

Even though 2008 was one for the record books, the task at hand remains: All of us must still strive to secure our future by saving and investing. We must try to live comfortably in an uncertain world. To that end, we are positioning portfolios for the recovery. We do not know when it will come, but believe it prudent to prepare for it.

We know that it will be very hard to fund pension plans, college savings accounts and retirement plans with U.S. Treasuries that have a near zero yield (and most likely negative after adjusting for inflation). U.S. Treasuries now contain significant long-term risk. With low yields and likely billions more to be issued (to pay for the Obama administration's fiscal stimulus package) the risks outweigh the potential return in government bonds. Municipal bonds, corporate bonds, preferred stock and many high yield bonds (even after accounting for likely defaults) appear to be extremely attractive. We are positioning portfolios to benefit from these opportunities.

When looking at nearly two centuries of historic return data, we find reasons for optimism. Since 1825 the return for large U.S. company stocks has returned approximately 10% per year. As the chart below highlights, when the rolling 10-year average dipped significantly below this level (as it is now) the following 10-year period saw significantly higher returns. In a recent study of stock returns from 1810 to 2008 by American Funds, showed that when stocks returned less than 2.5% per year over a 10-year period, they averaged over 13% for the next 10 years, within a 7% to 19% range. Of course, historical results do not guarantee future returns but do provide solace that we have seen these times before and will likely emerge stronger.



And finally, we encourage you to find the opportunities too. If you are still saving, continue to do so – it will speed the recovery in your portfolio. If you are drawing income from your portfolio, stick to your investment plan – being overly defensive now may limit your ability to recover your gains and jeopardize your ability to draw the income you desire in the future. Ultimately, patience, persistence and discipline will be rewarded.

“Investing is like dieting. It’s simple, just not easy.”

Warren Buffett