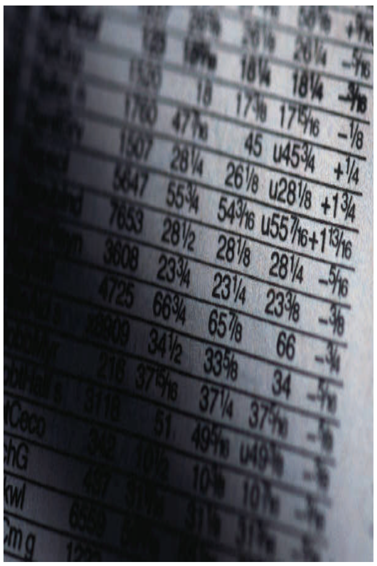
TRIAD WEALTH STEWARDSHIP
January 2009, Volume 6

The Triad Perspective

Larry Knudsen & Dan Stober

2008: A Fourth Quarter Update

And now it's time to say goodbye … finally … to 2008. An arduous fourth quarter concluded an anxious year for investors worldwide. Here's a recap of a momentous three months.



The quarter in brief. Was that the worst of it? Maybe that is what the fourth quarter of 2008 represented – the trough of a very rough recession. Some economists feel that way. Wall Street endured some serious pain in the fourth quarter. On November 20, the S&P 500 closed at 752.44, a low unseen since 1997; the Dow Jones Industrial Average closed at 7,552.29.[1] Only 14 months earlier, both indices had hit all-time highs. Fortunately, the S&P 500 and the DJIA respectively ended the year at 903.25 and 8,776.39; Santa Claus was a little late, but the DJIA did pull off a 284-point rally across December 30-31.[2]

The $700 billion bailout rolled out, but the Treasury Department's mission changed; instead of buying up bad assets, it poured cash into private banks. The Federal Reserve announced a new relief program to do what the Treasury originally wanted to do. The Fed slashed the key interest rate to a target of between 0% and 0.25% and announced a program to heal the consumer credit market. Statistics bore out that consumers were less confident and spending less. Oil prices fell to their lowest level in four years, and retail gas prices followed. Mortgage rates and consumer prices fell. Detroit automakers sought bridge loans from the federal government. The housing and commodities sectors hoped relief would come in the coming quarter, as did Wall Street.

Domestic economic health. On October 3, President George W. Bush signed the $700 billion bailout plan into law, incorporating $149 billion in tax breaks for the consumer.[3] Over three weeks, the Fed cut the benchmark interest rate by a full point down to 1.0.[4] The Treasury Department injected $125 billion into nine major banks in exchange for ownership stakes – shares paying a 5% dividend to taxpayers for the next five years.[5] The Fed announced it would buy large quantities of commercial paper in the coming months.[6] Key indicators for October revealed core problems. The Reuters/University of Michigan survey of consumer confidence went from 70.3 in September to 57.5.[7] The jobless rate jumped .4% in October to 6.5%, the highest level in 14 years.[8] America's manufacturing sector saw its biggest monthly contraction since 1982.[9] Retail sales dropped 2.8% in October, the biggest monthly decline since the Commerce Department began keeping track in 1992.[10]

Days after an especially volatile month ended on Wall Street, Sen. Barack Obama (D-IL) won the presidency. In November, he selected New York Fed president Tim Geithner as his Treasury Secretary, and former Treasury Secretary Larry Summers to head the National Economic Council.[11,12]

The Fed announced the creation of TALF, the Term Asset-Backed Securities Loan Facility, which would buy $600 billion in troubled assets from Fannie Mae, Freddie Mac and Ginnie Mae and another $200 billion in asset-backed securities to help get credit to consumers.[13] Assorted reports brought disparaging news. The U.S. lost 533,000 jobs in November, the most since December 1974.[14] A report showed November retail sales down 1.8%.[15] Another showed consumer spending down 0.6%, but it rose 0.6% when adjusted for inflation.[16]

December brought Chrysler and General Motors a gift: $13.4 billion in loans from Congress, with $4 billion more potentially available.[17] We saw the fifth straight month of contraction for the manufacturing sector – the ISM index came in at 35.4.[18] The malls didn't fare so well either: MasterCard Inc.'s SpendingPulse data service recorded total store sales down approximately 3.0% across November and December.[19] By the end of the year, KB Toys, Linens 'n' Things, Shoe Pavilion, Steve & Barry's, and Whitehall Jewelers had all gone out of business.

Major indexes. October's big dive turned 4Q 2008 into a dire one for stocks. But there was a rebound: the S&P 500 rose 20.04% between the close of trading on November 20 and the end of 2008.[20]

% Change	4Q 2008	Y-T-D
DJIA	**-19.12**	**-33.84**
NASDAQ	**-24.61**	**-40.54**
S&P 500	**-22.56**	**-38.49**

Source: CNBC.com, 12/31/08 [2]
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.

Global economic health. It was a bad quarter for industry worldwide. Eurozone manufacturing activity contracted in each month of 4Q 2008, extending a "losing streak" to seven months; in December, it contracted at the most alarming rate in 11 years. In December, the U.K.'s manufacturing sector had its second worst month since 1992. China's manufacturing sector contracted for the fifth consecutive month in December.[21]

The bulk of European economies officially entered a recession in the fourth quarter, along with the economy of Japan.[22] China, India and Thailand announced economic stimulus packages to counter presumed or confirmed recessions. India's exports fell a sharp 9.9% in November; however, inflation cooled from a 16-year high of 12.91% in August. China made five interest rate cuts in a three-month period ending December 22.[23] Economists surmise that China's fourth quarter growth may come in as low as

World financial markets. Markets suffered around the world during the fourth quarter, although quite a few gained following the Dow/S&P 500 low point of November 20. For example, the MSCI World Index and MSCI Emerging Markets Index gained 18.7% and 21.9% between November 21 and the end of the year.[25] But the year-end numbers were not helped by a quarter marked by mid-November's enormous descents. At year's end, the Shanghai Composite Index was down 65.4%, the Nikkei 225 down 42.1%, the Hang Seng down 48.3%, and the Sensex down 52.4%. In Europe, indexes also lost big ground in the fourth quarter: the FTSE 100 lost 31.3% on the year, still better than any of the big three U.S. indices and better than the German DAX index (-40.4%), the Dow Jones Stoxx 600 (-46.0%) and France's benchmark CAC 40 (-42.7%).[26]

Commodities markets. This sector offered no sanctuary from the market downturn. Oil ended the quarter at $44.60 per barrel, and it had to rally on December 31 to get there; oil futures were $100 higher in July and fell to the $35 level in late December. Gasoline futures ended the quarter down 59.2% for the year.[27]

Gold finished the quarter at $883.60, rising 5.4% for 2009, but silver and copper lost ground and respectively lost 35.6% and 56.5% for 2008. Despite rallies at the end of the quarter, corn finished down 10.6%, soybeans down 18.3% and wheat down 31.0% for 2008.[27]

Housing & interest rates. Again, no upturn here. October data showed housing starts down by4.5%, building permits down by 12%, existing home sales down 3.1% and new home sales down 5.3%.[28, 29.] Available November data wasn't much better: the National Association of Realtors said residential resales fell by 8.6% for the month, and the U.S. Census Bureau November survey had new home purchases 2.9% below October levels.[30]

As a byproduct of the Fed's radical cuts, mortgage interest rates really diminished over the fourth quarter. Prime opportunities emerged for those who could refinance. By the last week of December, Freddie Mac's national survey had 30-year FRMs at historic lows, averaging 5.10%. 15-year FRMs came in at 4.83%, 1-year ARMs at 4.85% and 5-year ARMs at 5.57%.[31]

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First quarter outlook. Traditionally, stock market analysts have viewed the opening trading days of a year as a barometer of the quarter (and year) to come. So perhaps we should watch closely. We saw a powerful rally on the first trading day of 2009, though volume was light; in the first full week of the month, we will see how investor optimism holds up in the wake of new unemployment and wage numbers, and gauges of factory orders, wholesale inventories, construction spending and the health of the service sector.

Much has been written already about the low point the markets hit on November 20; that bad trading day could eventually be remembered as the bottom of this bear market, if we evade economic upsets of the kind that marked last year. Has the market more or less stabilized? Might housing, corporate earnings and consumer spending take a turn for the better? Realistically, those are second and third quarter (some might say third and fourth quarter) questions. This quarter presents a test for the economy and the market – a test of the government rescue plan, a test of investor and consumer confidence. But recessions don't last, and we are investing for the long run rather than the next two or three quarters. Please keep that in mind. Perhaps three months from now, we will look back on a first quarter that was better than projected.

Miscellaneous Items:

Required Minimum Distributions (RMD) are waived for 2009

On December 23, President Bush signed the Worker, Retiree, and Employer Recovery Act of 2008 into law, suspending all Required Minimum Distributions (RMDs) from IRAs, 401 (k)s and 403(b)s for 2009.

So what if you turned 70½ in 2008? You still have to take your 2008 RMD by April 1, 2009. It should be calculated using your account balance as of Dec. 31, 2007. (This is assuming you haven't taken it already.)

Now, what if you turn 70½ in 2009? Well, you can wait until the end of 2010 to take your first RMD, but the IRS will consider it to be your second RMD.

The IRS says that if you turn 70½ in 2009, you have the option of delaying your first RMD until April of 2010. If you decide to do that, you will have to take two RMDs in 2010: one by April 1, 2010 for the 2009 tax year and one by December 31, 2010 for the 2010 tax year.

But … since nobody has to take an RMD for 2009, those turning 70½ won't be required to take a 2009 RMD by April 1, 2010. However, you will still have to take a 2010 RMD by December 31, 2010, which the IRS will count as your "second" RMD, even though you didn't take a "first" one for 2009.

Please contact our office with any questions.

E-confirmations and Schwab correspondence

Please contact our office if Schwab "mailings" are inconvenient and you would like to receive statements, confirmations, and correspondence via email .

Interclass Fund Exchange

We will make a few "Inter-class Exchanges" this month switching to the institutional share class for the following funds – ***Nuveen High Yield Muni, and Leuthold Core*** (for those who we did not exchange last year. The institutional share class has a lower expense ratio and higher minimum purchase amount. Please note that this is a non-taxable event. Cost basis will carry over to the new share class and fees are not incurred for the transaction.

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With the New Year upon us, we would like to meet or at least talk with you to do a thorough review. This will include re-affirming your risk tolerance, Investment Policy Statement, and updating your Financial Independence Model.

In preparation for our meeting, I would appreciate it if you could take a few minutes to think about and write down your goals and objectives for the future. We will be contacting you shortly to set up a meeting, or if you prefer, you can call Judy in our office to schedule.

Thank you for the opportunity to continue to work with you and we wish you all the best in 2009.

Sincerely,

Larry Knudsen & Dan Stober

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The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. It is not possible to invest directly in an index. NYSE Group, Inc. (NYSE:NYX) operates two securities exchanges: the New York Stock Exchange (the "NYSE") and NYSE Arca (formerly known as the Archipelago Exchange, or ArcaEx®, and the Pacific Exchange). NYSE Group is a leading provider of securities listing, trading and market data products and services. The New York Mercantile Exchange, Inc. (NYMEX) is the world's largest physical commodity futures exchange and the preeminent trading forum for energy and precious metals, with trading conducted through two divisions – the NYMEX Division, home to the energy, platinum, and palladium markets, and the COMEX Division, on which all other metals trade. The MSCI World Index is a free-float weighted equity index that includes developed world markets, and does not include emerging markets. The MSCI Emerging Markets Index is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies. The Shanghai Stock Exchange Composite Index is a capitalization-weighted index that tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange. Nikkei 225 (Ticker: ^N225) is a stock market index for the Tokyo Stock Exchange (TSE). The Nikkei average is the most watched index of Asian stocks. The Hang Seng Index is a free-float capitalization-weighted index of selection of companies from the Stock Exchange of Hong Kong. The Bombay Stock Exchange Sensitive Index (Sensex) is a cap-weighted index of 30 stocks; selection of the index members has been made on the basis of liquidity, depth, and floating-stock-adjustment depth and industry representation. The FTSE 100 Index is a share index of the 100 most highly capitalized companies listed on the London Stock Exchange. The DAX 30 is a Blue Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The Dow Jones STOXX 600 Index is a subset of the Dow Jones STOXX Global 1800 Index and represents large, mid and small capitalization companies across 18 countries of the European region. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. These are the views of Peter Montoya Inc., not the named Representative nor Broker/Dealer, and should not be construed as investment advice. Neither the named Representative nor Broker/Dealer gives tax or legal advice. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. The publisher is not engaged in rendering legal, accounting or other professional services. If other expert assistance is needed, the reader is advised to engage the services of a competent professional. Please consult your Financial Advisor for further information. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards.

Citations.

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