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Hello Everyone,

We hope you enjoy our new newsletter. We plan to cover timely topics of broad interest. Additional information can be found in the Learning Center of our website at www.EyeOnArgus.com.

Please feel free to suggest topics by sending your suggestion to Joy at joy@eyeonargus.com.

ARGUS FINANCIAL CONSULTANTS

Excellence is Defined by the Success of Our Clients

Spring 2009

A Tale of Two Fridays

This is a story about two Fridays, separated by exactly 21 years.

Specifically, it's an anecdotal recitation of the economic, financial and market disasters that have relentlessly plagued America and the world between those two Fridays, and of the remarkable – indeed, almost unbelievable – place that these disasters left us, 21 years to the day.

The first of the two Fridays was October 16, 1987. It was a pretty significant down day in the American stock market, after two consecutive but not terribly ominous declines on the Wednesday and the Thursday.

Stocks had actually been having a fairly difficult time since late August. Gold and commodity prices were rising with inflation concerns; interest rates had turned noticeably higher for the same reason. Equity valuations were historically very high, rendering the market vulnerable to some sort of correction.

But nothing on that Friday suggested the magnitude of what was to happen the next trading day: Monday, October 19, 1987. From the opening bell, stocks declined catastrophically. Because of a huge imbalance of sell orders, specialists on the floor of the New York Stock Exchange were unable even to begin trading some stocks for an hour and more.

Prices fell relentlessly throughout the day – and then accelerated, in a panic-driven rout, in the last ninety minutes of trading. When the tape stopped running, long after the close, the market was found to have fallen in excess of 23% -- the largest one-day decline in history, before or since.

Time magazine's cover expressed the universal consensus: "THE CRASH: After a wild week on Wall Street, the world is different."

Not long afterward, in 1990-91, came a cataclysmic collapse in the real estate and banking industries. Any number of major banks were said to be teetering on the brink of insolvency, as the value of collateral on their portfolios of home mortgages sank below the mortgage balances.

The savings and loan system in our country was liquidated under the auspices of a new federal agency, the Resolution Trust Company. A war loomed in the deserts of Kuwait. The first real recession in almost a decade took hold of the economy. And the stock market spiraled down into bear market territory.

> There is nothing new in the world except the history you do not know.
>
> - Harry S Truman

Time's cover showed silent film star Harold Lloyd hanging from a clock tower, and headlines:
HIGH ANXIETY: Looming recession, government paralysis and the threat of war are giving Americans a case of the jitters."

Soon enough came the terrible summer of 1998: Russia, which had been the world's hottest stock market the year before, defaulted on its sovereign debt, rendering its currency worthless. The largest hedge fund that had ever existed, Long-Term Capital Management, vaporized all its equity; it found to be still holding billions of dollars of positions which, if they had to be settled all at once, would have caused the global trading system to cease to function. And, like malignant dominos, the world's emerging markets and economies collapsed, in what came to be known as Asian Contagion 2.

All this brought on a bear market of incredible violence and suddenness in the U.S. No one was safe: even Warren Buffett's shareholdings in his Berkshire Hathaway declined by six billion dollars in 45 days.

Time's cover showed an uptrending chart suddenly breaking and falling to the bottom of the frame, plunging people trying to stand upon it into an abyss. The headline: "IS THE BOOM OVER?"

Not very long afterward came the bursting, in early 2000, of the greatest stock market bubble of all time, as the dot.com mania crashed, and seven trillion dollars worth of equity values – four trillion on the NASDAQ alone – turned to ashes. The country was once again gripped by recession. Then came the terrorist atrocities of September 11, 2001. And soon after, the horror of Enron, with all the corporate and accounting scandals that surfaced for months in its foul wake.

So first of all let me assert my firm belief that the only thing we have to fear is fear itself...

- Franklin D Roosevelt

A howling bear – in fedora, rep tie and wingtip shoes – graced the cover of *Time*.

Then, in mid-2007 – with the stock market barely above its levels of seven years earlier – the housing market in this country collapsed, uncovering a seemingly bottomless cesspool of defaulting loans and worthless derivatives. These hundreds of billions of dollars in losses cascaded into a credit crisis that ultimately froze the financial system of the entire world, and sent our stock market into (at this writing) one of the deepest bear markets since the 1929 – 32 event.

Time's cover featured a stark black-and-white photo of a line of destitute men waiting at a Depression-era soup kitchen.

This brings us up to the second Friday which bookends our litany of disaster: October 17, 2008 – 21 years to the day (if not precisely the date) after our story began – and, not coincidentally, only one day after the greatest single-day percentage decline in the S&P 500 since October 19, 1987.

And where, after all this destruction and chaos, did equity values stand on the second Friday – five bear markets later – compared to the first?

Dear reader: on a total-return basis (that is, price change plus dividends), the broad equity market stood just about *five times higher* on October 17, 2008 than it did on October 16, 1987.

Five times higher.

This startling truth may suggest – to the long-term, goal-focused investor – a couple of very important conclusions.

The first is that what really matters isn't the temporary erasure of equity values which happens during this or that evanescent crisis. It's the staggering increase in values (and dividends) which take place in the great expansions which resume after – and ultimately overwhelm the effects of – even the most significant setbacks.

And the second is that the most reliable source of the accretion and maintenance of real wealth remains, as it always has been, the ownership of diversified portfolios of the great companies in America and the world.

Gold, and oil, and "new era" technologies, and condos in Palm Beach, and exotic hedge funds, and numberless other financial fads have always strutted and will always strut their hour upon the stage, drawing the hard-earned savings of the greedy and the credulous to destruction.

While the earnings, cash flows, dividends and share prices of mainstream equities march on – through crisis after cataclysm after unimaginable disaster – to fund the most cherished goals of the patient, disciplined long-term investor.

Take a good look around. Try not to think too much about where the values of the great companies are today, late in the fifth bear market in just 21 years.

Try to imagine – if you can – where they will be in 21 years from now.

The market is constantly weighing three inputs to deter-

The Good, the Bad, and the Missing

mine its direction and risk profile: what it views as positive, what it views as negative, and what it does not yet understand. I like to call this ***the Good, the Bad, and the Missing.*** While no one can argue that the Bad has been the most influential of the three inputs as of late, I want to share with you a few thoughts concerning the dynamics of these three factors and how the market values and weighs them.

Contrary to what seems logical, the market does not need to have more "good" than "bad" to reverse a downturn and move to an advancing posture. In fact, given that the market is a forward looking machine, it does not wait to completely emerge from the dark before it starts to improve, but rather, it just needs to view the light at the end of the tunnel. Examining every recession and bear market since WWII reveals that stocks have always bottomed before the recession was over and delivered, on average, returns with a powerful 25% upside potential, as measured by the S&P 500 Index, and furthermore, recouped nearly all losses by the end of the recession.

So, the question remains, when will the market find the balance between good and bad that will propel it to shift from fear to opportunity? It is my opinion that this transition is upon us now. While this may contradict the many negative headlines reported by the media, the fact remains that the velocity of the good things happening in the market is increasing, while the velocity of the bad is slowing. The inflection point as to when the market improves surrounds the timing of when the bad stops getting worse and the good starts to gain frequency.

As far as ***the Good,*** we are starting to see it trickle in a bit faster than it did just a few months ago. The stimulus package and foreclosure relief were approved and we have gotten some encouraging news on retail sales, wages, and inflation data as of late. In addition, volatility has eased and liquidity in the credit markets has improved. While ***the Bad*** is too numerous to list, the velocity of negative news from the housing front and unemployment has begun to slow.

By now, you may be asking yourself, if the equilibrium between the Good and the Bad has indeed turned to a more positive (or at least less negative) balance, then why haven't the markets improved? It is because of the third factor: ***the Missing.*** There is currently a clarity void overhanging this market, which has been the primary catalyst for stocks retreating back below their November 20, 2008 market lows. The remaining unanswered questions largely surround the details of the government's many stimulus and rescue packages as well as the future state of the financial services industry. Do the banks need further capitalization? Will the banks be nationalized? What is the plan to remove the toxic assets off bank balance sheets?

It is my opinion that answers to the market's lingering questions are forthcoming. The Obama administration knows that the market is waiting for details and in my opinion has learned that the "trust me", high-level descriptions of its plans to improve the financial markets through fiscal and monetary policy are not enough clarity for the market to be comfortable. We are in a "show me" market that wants details. Once these missing details are uncovered, the market can once again refocus its attention to the increasing pace of good news and the declining pace of bad news, with the likely result of the market establishing the basis for a bottom.

This is not to say that the market and this economy do not have tough bridges yet to cross. But as ***the Good*** gets better, ***the Bad*** diminishes, and ***the Missing*** gets answered, it is my view that the backdrop for market improvement will be established. These retesting challenges and subsequent small victories are what make a market bottom. I continue to believe that long-term investors will be rewarded by patience and that new assets will benefit from careful entry into the market at these attractive levels.

> The investor's chief problem—and even his worst enemy—is likely to be himself.
>
> -Benjamin Graham

You may have questions regarding ***the Bad*** that remains in this market and as always, we encourage you to contact us. The sun is brightest after a storm and with a few answers to ***the Missing,*** soon we just may start to see ***the Good*** once again.

This research material has been prepared by LPL Financial.

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Somebody's sitting in the shade today because someone planted a tree a long time ago.

- Warren Buffet

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2009 Retirement Plan Conrtibution Limits

IRA and Roth IRA Conrtibution Limits

Maximum Contribution	$5,000
Catch-Up Contbribution*	$1,000

A 2008 IRA or Roth IRA contribution can be made up to the tax filing due date, which this year is April 15, 2009. There is no extension beyond that date, regardless of whether an extension is filed for the tax return.

*Those who reach age 50 by year-end can contribute an additional $1,000 in 2006 and every year agterward.

Phase-Out Ranges for IRA Deductibility

Married/Joint	$89,000-109,000
Single/Head of Household	$55,000-65,000

If you are not covered by a company plan, but your spouse is covered, the phase-out range for you for 2009 is $166,000-$176,000. If you file married/separate, your phase-out range is $0-10,000.

Roth IRA Contibution Phase-Out Limits

Married/Joint	$166,000-176,000
Single/Head of Household	$105,000-120,000

If you file married-separate, your phase-out range is $0-10,000.

401(k) Contribution Limits

Maximum Contribution	$16,500
Catch-Up Contbribution*	$5,500

Limits are per person; not per plan

*Those who reach age 50 by year-end can contribute an additional $5,500 in 2009. The catch-up contributions are also eligible for employer matching contributions.