

# CITY SECURITIES WEALTH ADVISORS

Your Life. Your Goals. Your Advisors.

February 2, 2009

In the following paragraphs, I would like to briefly discuss the portfolio management strategies we are pursuing as 2009 is now fully underway, with January already behind us. First, let me set the backdrop of what has occurred during the past 15 months in terms of the U.S. stock market.

After a fantastic increase from the market low in 2002, when the S&P 500 Index was around 800, the market peaked in October 2007 at 1,565. The end of 2007 and most of 2008 felt like a typical market pull-back, with the S&P 500 declining to 1,164 by September of 2008. In October, a much greater extent of our current economic and financial crisis became known, and by mid-November the market had returned to the 800 level of six years earlier. In December the market rallied to over 900. However, it would be very rare to reach a market low and not test that low again, which the market has come close to doing in late January and again today as the S&P 500 is hovering just over 800. (As I mentioned last week, assets represented by the S&P 500 are just one of about 14 different asset classes we utilize inside of client portfolios, and each has its own story being written by our current economic environment. The S&P 500, representing large U.S. companies, is probably the most widely watched among them, which is why I've used it here.)

You are likely well aware that I am not one to forecast where the stock market or other assets will be in the coming year or years. However, I do spend a significant amount of time assessing current risks and how to mitigate them, and identifying opportunities and how to take advantage of them in our investment portfolios and other aspects of clients' personal finances. This process leads us to the development of diversified and forward-looking allocations among the 14 asset classes we utilize, and timely adjustments to the weighting of each asset class. Without diving into a detailed analysis and rationale for each (some are self-explanatory, others too complex to describe in this letter), the following table lists some of the short-term and longer-term risks and opportunities we are currently facing:

RISKS	OPPORTUNITIES
<b>Short-Term</b> Further decline in asset prices Declining Treasury prices US Dollar declines from present rally	Temporary stock market rally Declining yield spreads in non-Treasury assets Non-USD denominated assets
<b>Longer-Term</b> Inflation Extended economic and market downturn Extended flat economic and market growth	Inflation linked asset classes Fixed income and non-correlated assets Income from dividends and interest payments

In addition to the above, we are mindful of the "significant risk of terrorist attacks" (per Homeland Security's current threat level) and the impact such an event would have on the stock market. I don't believe it is wise to ignore this possibility - nor to live in fear of it.

So how does this list translate into an investment portfolio strategy for 2009? I think it is safe to assume that we each have a similar objective following the asset declines experienced in the past 4 months - *recover asset values to a reasonable level*. Beyond that, the objective transitions to the pursuit of strategies that will meet our financial goals, knowing that some goals will need to be modified. Toward this objective, it is a reasonable possibility that the economic and market dislocations we have experienced may continue for some time. However, during 2009 we are anticipating the possibility of a strong but temporary market recovery. If this occurs, it is likely to provide us with an opportunity to exit certain types of assets at reasonable prices - something we are unable to do today - and reposition them in a way that improves wealth preservation and future growth. We have learned an enormous amount about portfolio management during 2008, and any recoveries during the coming year will be used to quickly implement forward-looking strategies.

Finally, the greatest impact on the success of any 2009 strategy will be how you manage your personal finances in terms of savings, cash flow and debt in the coming year. We will begin to explore the details of this in the coming weeks. Until then, please call or write me if you have any questions about this letter or any aspect of your accounts or personal finances. Always feel free to forward this to anyone that may benefit from it.

Best regards,

A handwritten signature in black ink, appearing to read "Kenneth R. Klabunde". The signature is fluid and cursive, with a prominent initial "K".

Kenneth R. Klabunde, MS, CFP®  
Vice President