

CITY SECURITIES WEALTH ADVISORS

Your Life. Your Goals. Your Advisors.

March 30, 2009

I am writing you earlier than usual this week, and the market is yet to open on Monday morning. It will be interesting to see what happens in the coming days and weeks following these last 14 business days that produced a positive 20.6% return for the S&P 500 index. Much of this increase, and the renewed enthusiasm that has gone along with it, stemmed from the announcement last week that February new home sales were up 4.7%. The interesting thing about this is that the positive February number was expected. The reported 4.7% increase is not seasonally adjusted and February sales are almost always up over January. It seems January just isn't a good month to sell new homes. If you look at the seasonally adjusted data, which accounts for this month-to-month noise, home sales were down 2.9% in February. More importantly, the margin of error on this report was +/- 18.3%. Expect to see a revision to these early estimates when we get the real February numbers. The direction of the revision will be far more telling on where the housing market really stands. Also, watch the year over year data, in which sales are down 41%. When this longer-term number begins to stabilize, which takes more than one good month, we'll know things are beginning to improve. *(source: John Mauldin)*

Now don't get me wrong - a 20% return in two weeks is real money, and I've been writing for some time that we would begin to see some significant market increases. But I've also been writing that the increases would be unsustainable and temporary, which is exactly what we have been watching occur as the media and market bulls pounce on seemingly positive data and try to convince us that this recession has officially reached a turning point. The real data just doesn't support that theory - yet. Until then, expect to see more of this renewed market vigor, followed by disappointing data revisions and pullbacks. The waters will be rough, but it creates excellent opportunities to make strategic adjustments in your investment portfolio. At some point, one of these market rallies is going to take a strong psychological hold on investors and produce some fantastic returns very quickly.

The reality is that this may be a long recession (or depression, depending on your employment status), and the water will be rough for most of the journey. But I am placing my bets with Christopher Columbus - at the end of the journey is a fantastic new world, not a cliff off the face of the earth. The economic process we are going through right now will set the stage for another period of economic growth in the future.

A few weeks ago I sat in an I.U. School of Medicine committee meeting and listened to Dr. Michael Murphy describe the research and results of an incredible stem cell therapy, using stem cells from the patient's own bone marrow to successfully repair a damaged vascular system that would have otherwise resulted in amputation of a limb. Medical technologies like this are being developed around the country, and many, like this one, will be available to patients in the coming five years. In the next decade we will witness advances in medical technology, nanotechnology, energy, bio-sciences, and more that we can't even imagine today, and the companies involved in these advances will provide excellent opportunities for investors. I think other things will change for the better as well. Personal savings rates will rise, setting the stage for a savings-based, rather than debt-induced, period of economic growth, consumerism will moderate, and our relationships with each other will become increasingly valuable.

This is a world I am willing to wait around for, and it is the reason for my persistent optimism. In the meantime, we'll continue to navigate the journey and seek out the smoothest waters possible, while taking advantage of the opportunities being created in this market environment.

If you have any questions about your own situation or investment portfolio, please feel free to contact me. I also encourage you to send this letter on to friends and family that will benefit, and I will gladly extend the invitation to them to discuss their personal situation and concerns. Many in our community are away for spring break this week. If you are one of them - enjoy! Those of us holding down the fort will enjoy the reduced traffic, quieter offices, wind, and rain.

Have a great week!

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

Kenneth R. Klabunde, MS, CFP®
Vice President