



Investment Management

January 16, 2009

Dear Valued Client

Re: 4<sup>th</sup> Quarter 2008

Market Summary							
	12/30/07	12/31/08		High		Low	
	\$	\$	%	\$	Month	\$	Month
S&P 500 Index (SPY)	146	90	(38%)	147	Jan	74	Nov
GS Corp Bond Index (LQD)	105	102	(3%)	108	Jan	76	Oct
WI Preferred Stock Index (WIPSI)	20.4	15.2	(25%)	23.0	Feb	11.4	Oct
WI Real Estate Index (WIREI)	256	245	(4%)	273	Feb	242	Aug

**Worst Investment Year Since 1931 – What’s Next?**

Over the last 12 months, the stock, bond and real estate markets posted their worst combined results since the Great Depression and tested the foundation of even the best managed portfolios.

Throughout 2008, we’ve attempted to minimize the volatile effects of this financial disaster by keeping large amounts of cash on the sidelines, selling investments that violated our investment parameters and rotating into investments that seemed to be weathering the storm well. During the last two months of the year, we accelerated the selling of investments with significant losses to generate tax deductions needed to minimize the capital gains taxes owed from the selling of profitable investments earlier in the year.

We rotated out of income investments we had concerns about, and bought bond investments that scored well through our selection process in order to strengthen the overall quality of our income portfolios. It is important to note that unlike stocks, price declines in bonds are usually recovered when they mature. In other words, the par value column listed in the Bond Section of the Portfolio Overview shows what the bonds are worth if they are held to maturity. Even though the current market (liquidation) value is significantly lower than the par value of the bonds, you can expect to get the par value, if these investments are held to maturity.

The end results are that we contained the damage, and have placed our portfolios in a position to take advantage of any future investment opportunities. It is important to note that most future profit taking can be done without complicated tax issues (unused capital losses generally do not expire).

January’s performance will be a key to our course of action in 2009.

Contrary to common beliefs, the major bear markets of the last century (1906-07, 1929-32, 1973-74, 2000-02) didn't go straight down and presented buying opportunities such as the 25% rally that followed the 9/11 attacks, or the 38% stock market advance in the midst of very slow economic growth and high unemployment in 1975.

January's market activity gives us predictable indications of future near-term market trends. If the S&P 500 Index and the Dow Jones Industrial Average close at higher levels on January 31, 2009 than the previous December, history suggest a 77% chance of an average rally of 20%. In this case, we would probably return to fully invested positions with hopes of recovering much of last year's losses.

A negative January would strongly indicate a continuing bear market decline in stocks, and would force us to increase cash levels to 50%, hedge remaining stock holdings and/or reallocate into fixed income investments.

### Remember the Disco Years?

Regardless of any short-term market advances, we expect investing in the foreseeable future will resemble the economically challenging decade of the 1970's, and that the "easy money" times of the last 25 years are over for a very long time.

Common Stocks: We believe that the S&P 500 index will annually average 9.2% (with dividends) over the next 5 years. This is well below the 12.3% total return of the last 22 years. The stock market will probably trade sideways with no new highs during this time. Investors should plan on higher levels of trading and investment rotation, a willingness to hold high levels of cash after significant market advances and using hedging strategies during volatile times in order to successfully navigate these market conditions.

Corporate Bonds: We expect short & medium term bonds in stable companies to yield 7% to 10% annually over the next five years. Since these returns are comparable with the expected results in stocks, average investors should consider shifting a significant portion of their portfolios into the near certain returns of holding bonds rather than risk the ongoing volatility of the stock market.

Preferred Stocks: We expect preferred stocks to maintain double digit yields. When bonds are not available, they can be a good substitute for a 25% allocation in an income portfolio.

When the 2000-02 bear market ended, we established new 5-year investment goals & strategies customized for each of our clients. Many of our clients opted for less volatile investments (such as bonds), and were much happier with the portfolio even though the returns were lower than stocks.

Similarly, now is a good time to establish new investment strategies, which reflect new economic realities, and for each of us to carefully balance the need to make back what has been lost during this decline and to withstand additional financial volatility in the future.

### News & Notes

- **New Client Proposal & Information Forms** – In light of the current market conditions, we will be sending new proposal forms out to each client covering the performance goals and strategies for 2009-2013. We plan to mail these out by the end of the month, and it is important that we receive them back with your signed approval ASAP.
- **Client Restrictions** – If you made special requests regarding the management of the portfolio (large cash holdings, investment selections, etc.), then please let us know what your overall objectives are, so we can adjust the portfolio accordingly.

- **Annual Client Meetings** – Communication is absolutely critical when it comes to investing. If we haven't talked in the last six months. Please call our office at your earliest convenience to make an appointment for a phone meeting.
- **Brokerage House Selection** – Winans International works with 6 different brokerage houses in order to serve the wide-ranging needs of our various clients. If you are not satisfied with your current broker, please let us know, so we can help you find a firm that is better suited to your needs.

This has been an exceptionally stressful time for all of us. It seems that everyday brings another round of scary headlines that make it tempting to sell everything and wait this mess out on the sidelines. The problem is that dire times in the past were often followed by powerful market rallies long before the media's headlines became bullish. Investors who sell out after a major correction rarely reinvest, and usually miss out on recovering what has been lost.

We have devoted substantial time and resources to developing a time-tested plan to deal with potential financial advances and/or continued declines. I feel we are equally prepared for either scenario.

Please feel free to call me directly with your questions or concerns.

**Sincerely,**

A handwritten signature in black ink, appearing to be 'KW' or similar initials, written in a cursive style.

**Kenneth G. Winans, CMT**