January, 2009

A Time to Reflect

Without a doubt, 2008 will go down as an historic year for a number of reasons. Who would have predicted that we would witness the wholesale meltdown of our financial and banking system, crude oil at $145/bbl, and the S&P 500 down 37%[1], the second worst year for large company stocks in the last 100 years? We can't begin to list all of the "never seen before" or "worst ever" statistics that occurred throughout the year, causing fundamental changes in the way Americans live and view the future. Nowhere was this more evident than the latest retail numbers indicating a year-over-year decline in sales for the first time since the Commerce Department started keeping the numbers. Couple this with the prediction that 71,000 retailers will have closed their doors by the end of 2009 and it's clear that significant changes are occurring.

As we prepare to swear in our new president, the Obama administration is already formulating plans which will attempt to mitigate the financial crisis as it continues to unfold. President-elect Obama has asked President Bush to request that Congress release the second half of the TARP funds -- $350 billion. In addition, he has proposed $310 billion of tax cuts as part of a new $850 billion stimulus package designed to create or save over 3 million jobs.

The Federal Reserve effectively lowered the discount rate to zero percent in December, furthering its attempt to shore up the banking system and indicating its plans to use all available tools to support the economy and stave off deflation. They also announced the purchase of $500 billion of mortgage-backed securities to lower mortgage rates, trying to soften the fall of housing prices.

"We give you a Republic; now see if you can keep it." -- Ben Franklin

It is generally accepted economic theory that government intervention in the form of fiscal and monetary policy is appropriate in periods of economic stress. This intervention is normally done through changes in interest rates and tax policy. However, the magnitude of our current circumstances has resulted in the Federal government's unprecedented steps of taking ownership positions in public companies such as AIG, Citigroup, and Bank of America, with undoubtedly more to come. This deepening fiscal and monetary intrusion from our government begs the question as to whether we are taking dangerous steps toward socialism and away from the capitalism that has made and kept our country great.

The challenge for the new administration and Congress will be to appropriately allocate the aid and, more importantly, to know when to step back from this unparalleled intervention in the economy. The government simply cannot prop up failing companies and policies forever. The weak must be allowed to fail and we need the strong to lead the economy out of the doldrums. The "too big to fail" mentality is questionable policy and may only delay ultimate failure. Over the long-run, we cannot have quasi-governmentally owned entities competing with private companies.

The honeymoon for President-elect Obama may be over before it even begins. Members of both parties are already challenging his proposed use of the TARP and elements of his stimulus package. Meanwhile, constituents from all corners are lining up to ask for their version of relief as Federal funds are distributed. Unions are expecting industry loans with new labor laws and protectionist policies in an effort to save jobs, distressed homeowners are clamoring for mortgage relief, automakers want bail-outs, environmentalists expect green laws, and over-extended consumers want to wake up from their nightmare and resume their unrealistic lifestyles.

Left to its own devices, the economy has a tremendous history of working through these periods of economic stress. However, if we don't eventually return to a free market economy, our children and grandchildren may grow up in a very different America than the one we have known.

The Paradox of Thrift

As we have discussed many times before, the American consumer has long been the engine of economic expansion. This time around, the consumer financed this expansion through cash-out refinancing and readily available consumer credit. With housing

prices rising and the market recovering from the lows of 2002, household net worth continued to grow. As the housing bubble burst, it set the stage for the unwinding of the credit driven expansion, which bled over to the stock market and eventually to the overall economy. High debt levels, depressed housing and stock values, and economic uncertainty have created a dilemma for the consumer and the economy. The consumer has come to the realization that he must reduce spending to lower debt yet, by doing so, will collectively stunt the growth of the economy. Renowned economist Milton Friedman coined this dilemma the “Paradox of Thrift”, where the very things that repair an individual’s balance sheet will cause the economy as a whole to suffer.

In our opinion, these circumstances have caused this recession to be more severe and protracted than average with recovery not likely until late 2009 or early 2010. While this process is extremely painful, especially for those least prepared, this will eventually result in healthier individual balance sheets and a newfound appreciation for the wisdom of living within our means. This will ultimately sow the seeds for a meaningful economic recovery.

As we begin 2009, there will be a monumental tug-of-war between deteriorating economic conditions and unprecedented fiscal and monetary stimulus. Throughout the year, one or the other will appear to have the upper hand and markets will respond accordingly. Expect volatility to remain high until the economy has clearly entered a period of stability.

At some point, we do believe that market forces will seek equilibrium and we have already seen some positive signs. Oil has dropped from $145/bbl to $38/bbl on reduced demand, improving household cash flows. The credit freeze is thawing as evidenced by the significant reduction in the spread between LIBOR (London Interbank Offered Rate) and Treasury rates. The stock market has already priced in a significant amount of economic deterioration and uncertainty with the S&P 500 falling 52% from high to low and 90 day Treasury bills have been priced to reflect maximum fear with a yield of .07%.

Unfortunately, the markets will not ring a bell when they hit bottom, but they historically turn up six to nine months before the economy. Our core philosophy of prudent diversification with appropriate adjustments for risk tolerance provides the opportunity to capture the returns available to equity investors while dampening the negative effects of market downturns.

Announcements

We are excited to announce that we will be changing the name of our firm to Wealth Dimensions Group, Ltd. Ownership of the firm will not change, nor will there be any change in the people you deal with or the services that we provide.

To give you some background, it began when we hired a consultant in early 2008 to help us better define and communicate our brand. We have been frustrated with the lack of uniqueness in our name, which has led to confusion with unrelated firms and has made it difficult to find an ideal domain name for the internet. After significant reflection, we agreed that the name Wealth Dimensions Group accurately reflects the guidance and services we provide for all dimensions of our clients' financial needs and it gives us access to an excellent domain name. Therefore, Wealth Dimensions Group and our new website at www.wealthdimensions.com will go live this quarter. We will be sending a formal announcement when the change is effective.

We look forward to introducing exciting new enhancements for our clients throughout 2009 and will be sharing them with you as they become available.

You will be receiving Tax Information Statements from Fidelity in the next several weeks that will contain a section listing gains/losses on stock sales. Please instruct your tax advisor not to use that information to prepare your return. We track gains/losses using a more sophisticated method than Fidelity to minimize clients' taxable gains and we will provide this information to you or your advisor.

We will be amending our Form ADV Part II that is filed with the Securities and Exchange Commission. If you would like a copy, please feel free to contact us and we will be happy to send you one for your records.

We appreciate your continued confidence in our services!

Wealth Dimensions Group, LTD

[1] www.standardandpoors.com

Investment indices are represented by the Dow Jones Industrial Average, S&P 500, S&P Midcap 400, Nasdaq, EAFE, and Nareit. Performance of these indices is not indicative of any particular investment. The indices are unmanaged and individuals cannot invest directly in any index. The Lehman Brothers U.S. Aggregate Bond Index is comprised of a variety of taxable bonds, and is used as a measure, or benchmark, of the US bond market. No strategy including diversification can guarantee a profit in a down market. Past performance does not guarantee future results.