

First Quarter 2009

April 10, 2009

Written by John R. Ruocco

1-800-208-8588

www.assetmanagementassociates.com

It's not all Doomsday!

It has been a volatile first quarter to say the least. In January and February the markets continued their downward spiral dropping almost 25% but staged a significant rally at the end of the quarter which left the S&P down just about 13%. The NASDAQ which is heavily weighted in technology stocks ended the quarter even.

The action at the end of the quarter came as a sigh of relief. Trying to figure out if this is the birth of a new bull market will be difficult or impossible to tell. There are just too many variables. The economy is upside down with so many new things and a multitude of government programs. It is impossible to judge their impact for either the short or the long term. That being said, here is the situation.

Cash

There is a ton of cash sitting on the side lines of this market. So far, every time investors entered the markets they have been burned. So, they are reluctant to jump in. But the volume of cash sitting idle is so great that just a fraction moving in on a whim could cause a 1000 point Dow rally. Coupled with that are the speculators that borrow stock to "short" the market. When the markets start to advance rapidly on some piece of good news, the shorts panic and have to repurchase the stock they sold. This amplifies the upward rally.

The Disconnect

It is very important to understand that there is a disconnect between the economy and the markets. The markets look forward and predict the future. The economy is what is happening in the present. The markets will start their rapid journey upward long before the actual main street economy starts to turn around. It is more than likely that stocks will be in recovery even before real estate is booming. The thing is everybody knows this and in sense we may



A Pig Story

In 1945, George Orwell wrote the book Animal Farm. It was about pigs that took over the farm because they had no use for humans. After all what did the humans do? They did not do any work and they took all the profits. The animals were led to believe that things would run a lot better without humans. Slowly the animals took over and split up the fruits of their labor. But in the end the pigs took over the animals and started to look more and more like humans. The very greed the animals tried to get rid of returned with a different face.

This whole process was characteristic of communist regimes in Russia, China, Cuba and other places. The idealists that preached such a fair and simple way of life ended up taking power. Since they controlled everything they felt they deserved better. So the poor stayed poor and those in power lived the high life. In other words communism didn't work because greed showed up in a different form.

(rally – from page 1)

be seeing a rally in anticipation of the “anticipation” rally.

Recession or Armageddon

In October it looked like we were having a collapse of the banking system. Investors started to think that what the doomsayers have been saying for 30 years was finally happening. Actually, it was happening. After the huge bank bailouts there was a brief sense of relief in December. Then in January it was looking again like all the money that was thrown at the banks was wasted and nothing was working. It seemed inevitable that Citigroup and/or Bank of America would collapse or be taken over by the government virtually wiping out the stockholders. That is what brought the markets down.

In the past few weeks the fear of collapse has once again subsided. The feeling is that the “systemic” risk of a banking collapse has passed and what we are dealing with is a good old - fashioned recession. We have been through many recessions and investors know that recessions , coupled with low priced markets, spell opportunity. So, if this is just a recession, money is moving into the markets.

News

The problem we have is the story changes almost daily. One day the banks are being taken over by the government and the markets tank. The next day, it’s not going to happen and the markets rally. The market movements are huge in both directions. There are new programs being issued daily and old programs taken off line. The government is continually inventing programs to bring the economy out of its slump. It is throwing mud against the wall, hoping something will stick.

Unemployment

The number of unemployed is rising. We are getting close to 6 million unemployed. This does not count people that are basically doing nothing and not collecting unemployment or those that are

Bailouts and Spending

There are several things the government is doing in attempt to turn things around.

The bank bailouts have been controversial to say the least. I think the initial bailouts were necessary to avert the domino type collapse that seemed imminent in October. As a part of this, the Fed is trying to take banks’ bad assets out of the system and let them be held by the Fed. One of the problems with these bad assets is that there are no buyers for them. This makes them very difficult to value since their value as an asset is based on what the current market will bear. A relaxation of accounting rules is now allowing banks to value these assets based on a more arbitrary formula. This accounting change contributed heavily to the latest market rally.

The Fed is also buying mortgage backed securities simply because very few buyers want them and it needs to create a market for these securities. It is also doing this to drive mortgage rates down. To put added pressure on rates, it is buying long term treasury bonds. Both of these assets end up on the Fed balance sheet in hopes of selling them to the private sector at a later date along with the so called “toxic assets” mentioned above.

In addition to buying bad debt, the Fed is also purchasing stock in many huge corporations like Citigroup, AIG and GM. All of this gives the U.S. Government a very large and extensive investment portfolio.

There is more. The government is starting to spend money on infrastructure projects like we did in the Great Depression. These are supposed to help put people to work and get money into the system.

All of the above is leading to trillions in borrowing and puts us in uncharted territory with government debt off the charts. With one government hand, it is issuing bonds and borrowing money to pay for all of the programs and with the other hand the government is buying securities to put on its own balance sheet. It is very difficult to decipher what the outcome will be.

“underemployed” (working for much less than what

(Continued on page 4)

The capitalist system is built on the recognition that man is inherently greedy. If people want something, someone will form a business to provide it because they could profit by selling the product or service.

GM did not make SUVs and force people to buy them. People wanted SUVs. Then when the price of gas went up, peoples' demands changed. The capitalist system automatically started to eliminate the products GM was making. In the process it may be GM that is eliminated. Unfortunately, GM made too many of these vehicles and got caught when gas prices spiked. Too bad for GM. They may soon be sausage.

Due to the size of GM, the government has no choice but to step in; but, if the government mandates what products GM and potentially other companies have to produce and what people have to buy, we start heading down a slippery chute. That being said, the government can regulate the industry by passing strict pollution standards or other standards such as safety etc. and regulate the industry passively by altering demand but not controlling production.

In the Depression the feeling that capitalism failed led people to ask the government to solve their problems. This gave rise to a lot of new government programs that many felt were too socialistic. This included programs like social security, unemployment insurance, the FDIC and a banking industry that, believe it or not, is regulated. As it turned out, a lot of these programs are not so bad and they give us security. If it weren't for these programs the system would have easily collapsed in October and we would be in the 2nd Great Depression. At least now, we have bought ourselves some time to hopefully solve the problem.

One of the lessons from the Depression, however, was that the government could not do everything. It could put a million people to work building bridges and repairing infrastructure, but unfortunately that was not enough because the economy is much bigger than that. To pull out of this mess, we need the participation of the private business infrastructure at the price of more updated regulations. That being said we should not over regulate and over tax the small and large businesses at the federal and/or the state level because this will stifle those business owners and force them to cut expenses and cut workers. It will slow the recovery not speed it up...So we are walking a very fine line.

Putting The Rich To Work

Investors have money on the sidelines—more money than the U.S. Government—earning almost nothing. Most of my clients do not consider themselves to be rich, but just about all of my clients fall into this category. They have cash and they want to invest and make money. They will make money by investing in stocks or businesses that have the opportunity to grow. If the government could simply convince this money to go to work, the economy will once again start to move forward. This what we need to recover.

Conclusion

Whether they are on four legs or two legs, we will always have pigs. If we turn the farm over to the elephants and the donkeys, we may end up with nothing more than a lot of Washington pork.

Ironically, it is going to be the same greed that got us here that will get us out of this mess. I don't know what kind of pig it will be. It could be a fat pig or a cute pig, but one thing is sure, there will always be greed, there will always be grunts and there will always be pigs!

John R. Ruocco

(unemployment—from page 2)

they used to be making). The number of people collecting food stamps is now about 1 in 10. Unemployment, however, is considered to be a lagging indicator. In other words, it does not forecast the recession, it is the “result” of a recession. As demand for goods and services shrink, companies have to shrink by shedding workers and capacity until they reach a point where they are producing just the bare minimum of the product they can sell. While this happens, their stock price drops. Eventually, the smaller company, if it survives, starts to stabilize and then grow.

The concern is the rise in unemployment will not be a short term event but something that will continue for a longer than average period of time. This is because consumers remain in a very difficult position. They have taken significant losses in their investment and retirement accounts, the value of their homes have declined and their access to credit via home equity is greatly reduced. Along with that they have job insecurity. Consumers are trying hard to get out of debt and even more reluctant to spend. This puts a downward “deflationary” pressure on prices and prolongs the whole cycle.

The current market rally reflects the optimistic view that we are at the end of the unemployment cycle. But, with GM and Chrysler looming in the background, others still feel that there is more to come and we are not out of the woods. It is extremely important the we break the downward spiral that we are in and that we do not get caught in this deflationary spiral.

Have We Hit A Bottom?

There has been a huge controversy over the AIG bonuses. This has masked the larger part of the story. AIG was supposed to be dismantled and little structurally has happened to this company. The GM and Chrysler situation keeps getting put off. The banks that were considered bankrupt a few weeks ago are now suddenly reporting that they are profitable. We are in a state of flux.

It seems as if we have hit a short term bottom but we have chopped down the forest to put out a forest fire. With all of the intervention and all of the money we are printing, we don’t know what kinds of problems that we are creating. So it is tough to say if a recover is starting to take hold or if we will create so many problems that things will slide all over again.

Strategy

I will stick my neck out as far as I can and say that we are closer to the bottom than to the top. The big “if” is the banking system. At some point it has to start to heal itself. For this reason we can not stay too far on the sidelines and have to start putting some money to work slowly and cautiously. All market sectors are good values but I am more comfortable with dividend paying stocks, preferreds, bonds - particularly the junk bonds, health and biotech and to a certain extent technology. We may be entering a period where we are past Armageddon. If that is the case, it’s not all doomsday and it could be a buyer’s market!

Asset Management Associates is owned and operated by John R. Ruocco who has been providing a *fee only* investment advisory service for over 20 years.

For more information and advisory fees, please contact John R. Ruocco at 1-800-208-8588 in South Windsor, Connecticut *The first consultation is always free.* Information, brochure, and form ADV part II is available upon request or log-on to www.assetmanagementassociates.com.

Note: My pledge to the members of the military serving in Iraq or Afghanistan and their spouses is to waive my fees for investment advice as long as they are deployed or for one year after they return.

Managed Fund Performance for 1st Quarter 2009

		<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Back</u>	<u>Annual</u>	
	<u>Symbol</u>	<u>Total</u>	<u>Total</u>	<u>Total</u>	<u>1st Qtr</u>	<u>Red. Fee</u>	<u>Expense</u>	<u>Description</u>
					-			
<u>Bond</u>								
Amer. Cent. Inf. Adj. Sec.	ACITX	0.00%	11.00%	-1.00%	4.70%	0.00%	0.49%	TIP's
Vang. High Yield	VWEHX	8.20%	2.00%	-21.30%	4.70%	0.00%	0.26%	Lower Quality
Pioneer High Yield A *	TAHYX	10.60%	7.00%	-37.00%	3.70%	0.00%	1.10%	Junk and Conv.
Price Spectrum Income	RPSIX	8.40%	6.20%	-9.40%	-1.60%	0.00%	0.80%	Conservative Bond
American World Bond	CWBFX	7.60%	8.60%	-0.60%	-3.60%	0.00%	1.04%	Int'l Bond
<u>Balanced</u>								
Vang. Balanced Index	VBINX	11.00%	6.20%	-22.20%	-5.90%	0.00%	0.22%	Index of Wellington
Vang. Star	VGSTX	11.60%	6.60%	-25.10%	-6.00%	0.00%	0.20%	Several Vang. Funds
Vang. Wellington	VWELX	14.90%	8.30%	-22.30%	-7.10%	0.00%	0.36%	60%/40% Stock Bond
American Cap Income Bldr	CIBFX	22.00%	10.60%	-30.00%	-8.50%	0.00%	0.79%	Diversified U.S. Int'l
Dodge and Cox Balanced	DODBX	13.90%	1.70%	-33.60%	-10.40%	0.00%	0.55%	Bond Stock & Cash
<u>Stock funds</u>								
Invesco Gold *	FGLDX	28.50%	22.80%	-28.70%	12.90%	0.00%	1.89%	Gold - Sector
Price Science & Tech.	PRSCX	7.10%	11.90%	-43.80%	8.30%	0.00%	1.11%	Tech.
Prudent Bear	BEARX	9.10%	13.40%	26.90%	5.80%	0.00%	1.76%	Short-Gold
Price Blue Chip	TRBCX	9.70%	13.00%	-42.60%	-0.80%	0.00%	0.96%	Large Cap
Mutual Discovery	MDISX	23.40%	11.30%	-26.60%	-1.80%	0.00%	1.04%	Specialty & Int'l
Invesco Energy *	FSTEX	9.70%	45.10%	-44.00%	-3.10%	0.00%	1.23%	Energy - (phase out)
Vang. Explorer	VEXPX	9.80%	5.10%	-40.40%	-4.70%	0.00%	0.70%	Small Caps
Vang. Energy	VGENX	19.70%	37.00%	-42.90%	-5.10%	0.00%	0.40%	Energy Sector
Vang. Primecap	VPMCX	12.30%	11.50%	-32.40%	-5.40%	0.00%	0.49%	Growth
Neuberger Partners	NPRTX	13.20%	10.10%	-52.00%	-5.90%	0.00%	0.90%	Value - Aggressive
Rydex Biotech	RYOIX	-3.10%	5.70%	-10.50%	-6.00%	0.00%	1.38%	Biotech Sector
Fidelity Contrafund	FCNTX	11.50%	19.80%	-37.20%	-6.40%	0.00%	0.99%	Large Cap
Vang. Health	VGHCX	10.80%	4.40%	-18.50%	-8.00%	0.00%	0.29%	Health - 25k Min.
Investment Co. Of America	AICFX	16.00%	5.90%	-34.80%	-8.30%	0.00%	0.70%	U.S Growth - Large Cap.
Neuberger Genesis	NBGNX	7.30%	21.90%	-32.90%	-10.20%	0.00%	1.08%	Small Cap - Closed
Third Ave. Value	TAVFX	14.70%	5.80%	-45.60%	-10.70%	0.00%	1.07%	Diversified Value
Vang. Index 500	VFINX	15.60%	5.40%	-37.00%	-11.00%	0.00%	0.18%	Index - S&P 500
Royce Total Return	RYTRX	14.50%	2.40%	-31.20%	-12.00%	0.00%	1.20%	Div. Paying Small Cap
Vang. Windsor II	VWNFX	18.30%	2.20%	-36.70%	-12.90%	0.00%	0.42%	Value
Cohen & Steers Realty	CSRSX	37.10%	-19.20%	-34.40%	-30.70%	0.00%	1.09%	Diversified REITS
					-			
<u>International</u>								
1st Eagle Sogen Global A*	SGENX	20.50%	9.90%	-21.10%	-8.30%	0.00%	1.34%	Int'l with 38% US
Price International	PRITX	19.30%	13.40%	-48.00%	-8.60%	0.00%	0.92%	Diversified Int'l
1st Eagle Sogen Overseas A*	SGOVX	22.30%	8.40%	-21.00%	-9.60%	0.00%	1.39%	Smaller Cap Int'l
American Cap World	CWGFX	22.30%	17.50%	-38.40%	-10.40%	0.00%	0.91%	U.S. and Int'l

* purchased at N.A.V. with sales fees waived on these loaded funds

Focus on Exchange Traded Funds 1st Quarter 2009

Sector	Symbol	Percent of S&P	YTD 2006	YTD 2007	YTD 2008	1st Qtr 2009	Annual Expense	
Technologies	XLK	22.27%	12.16%	8.99%	-41.66%	1.86%	0.28%	Internet, telecom, computers
Materials	XLB	3.25%	18.22%	22.13%	-44.12%	-1.76%	0.28%	Chemicals, materials, mining.
Health Care	XLV	14.56%	7.05%	7.11%	-23.31%	-8.26%	0.28%	Health care, equipment, pharm.
Discretionary	XLY	8.68%	18.41%	-13.01%	-33.67%	-8.43%	0.28%	Autos, apparel, hotels, media.
Energy	XLE	13.32%	18.01%	36.74%	-38.92%	-10.63%	0.28%	Oil, gas and equipment.
Utilities	XLU	4.18%	20.85%	18.85%	-29.20%	-11.02%	0.28%	Water, electrical and gas.
Staples	XLP	12.75%	14.47%	12.93%	-15.30%	-11.09%	0.28%	Retailing, personal consumption.
Industrial	XLI	10.02%	13.50%	13.70%	-38.95%	-20.57%	0.28%	Aerospace, machinery etc.
Financial	XLF	10.98%	18.82%	-18.59%	-55.14%	-28.94%	0.28%	Financial services

Note: If you own all of the above in the specified percentage, you then own the S&P 500 - which trades under the symbol SPY - listed below.

Silver	SLV	***	***	***	-23.79%	14.20%	0.50%	Physical Silver
Gold Miners	GDX	***	***	***	-26.07%	8.85%	0.55%	Gold Stocks
Gold Trust	IAU	***	***	***	5.11%	4.30%	0.40%	Gold Bullion
TIPs Bond Fund	TIP	na	0.28%	11.93%	-0.53%	3.54%	0.20%	Inflation Protected Securities
Nasdaq 100	QQQQ	49.67%	6.93%	19.14%	-41.72%	2.11%	0.20%	Largest 100 NASDAQ
Agribusiness	MOO	***	***	***	-51.03%	1.65%	0.65%	Agricultural Stocks
Emerging Markets	EEM	na	31.90%	33.08%	-48.89%	-0.64%	0.76%	Emerging Markets
Golden Dragon	PGJ	na	53.30%	63.27%	-56.13%	-0.94%	0.60%	China
China 25	FXI	na	83.17%	54.75%	-47.76%	-1.93%	0.60%	China
Rydex Euro Currency	FXE	na	10.90%	14.54%	-1.15%	-4.73%	0.40%	Inverse Dollar/Euro
Gld Sachs Resource	IGE	33.49%	16.41%	33.47%	-42.88%	-6.71%	0.50%	Energy - Resources
Steel	SLX	***	***	***	-63.87%	-6.91%	0.55%	Steel Stocks
Dynamic Biotech	PBE	na	2.31%	5.82%	-26.75%	-7.43%	0.60%	Biotech
Coal	KOL	***	***	***	-63.68%	-8.39%	0.65%	Coal Stocks
Clean Energy	PBW	na	7.20%	58.50%	-68.87%	-11.83%	0.60%	Alternative Energy
S&P 500	SPY	28.17%	15.85%	5.14%	-37.22%	-11.90%	0.11%	S&P 500 Index
Nuclear	NLR	***	***	***	-44.75%	-12.05%	0.55%	Nuclear Stocks
Oil	USO	***	***	***	-56.31%	-12.24%	n/a	Physical Oil
Diamond Trust	DIA	28.00%	0.19%	8.79%	-32.31%	-12.53%	0.20%	Dow Ind. Average
Russell 2000	IWM	48.00%	18.27%	-1.75%	-34.15%	-14.30%	0.20%	Small Cap Stocks
EAFE Index	EFA	29.80%	25.81%	9.97%	-41.04%	-16.21%	0.35%	European Index
Water Resources	PHO	na	22.17%	16.74%	-32.43%	-17.08%	0.60%	Water Prod. & Supply
Japan	EWJ	38.73%	5.95%	-5.48%	-26.99%	-17.50%	0.84%	Japan Index
Global Alt Energy	GEX	***	***	***	-60.82%	-21.03%	0.65%	Alternative Energy
Dow Sel. Dividend	DVY	na	19.44%	-5.67%	-32.80%	-23.10%	0.40%	High dividend Stocks
Cohen & Steers Rlty	ICF	36.75%	38.50%	-18.21%	-41.01%	-35.81%	0.35%	Real Estate Inv. Trusts

The above is a brief list of some of the more popular indexes currently used. I added some of the indexes that simply hold commodities such as oil, gold and silver directly.