

As you well know we are experiencing a challenging and unprecedented period for global economies and stock markets. Making investment decisions is equally challenging. The S&P 500 reported earnings have dropped 65 percent from their December 2006 highs. The S&P 500 Index has dropped 47 percent from its 2007 high. Unemployment will continue to climb further reducing consumer spending which contributes over 60 percent of annual GDP. The DOW recently closed below its November 20, 2008 low and the S&P 500 has been very close to piercing that threshold. Historically that has been a technical indicator suggesting further downside in the market. It is a vicious cycle that will eventually correct but it appears that we have not yet put in a bottom for global economies or stock markets.

There are self correcting mechanisms in competitive markets and economies. The government stimulus and bailout programs will eventually help too, but recovering from this downward cycle may take many years. CFM decided to err on the side of conservatism and position most portfolios more defensively. While we run the risk of making this move at the market bottom we believe there is currently more downside risk than upside potential. We believe that bonds have better potential for positive return over the next year or so than stocks. Bond performance must improve through lower credit spreads before the stock market can improve.

If we are incorrect and stock markets are currently putting in a bottom, bonds will continue to perform well near term. CFM will increase stock allocation to original targets when certain leading economic indicators and tactical signals turn positive. That will happen after the bottom in this stock market cycle has been established which may not be during 2009. When we rebalance to the original bond-stock allocation based upon positive indicators, it will provide significant upside potential even though we are currently moving more defensively.

If you have questions or concerns please contact Gary or Josh.

We appreciate your business.