BRIAN D. LOWDER, INC.

QUARTERLY NEWSLETTER

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INSIDE THIS ISSUE

FINANCIAL MARKET OVERVIEW

Extreme volatility and the unpredictable nature of stock prices continued during the second quarter. The first quarter ended with a 19-day streak pushing stock prices up about 25% above their March 9th lows. The upward movement continued through April and May pushing overall U.S. stock prices up an additional 15%. During the month of June, the momentum stalled with a mere fractional gain. Although the recent 37% advance since the March 9th low is impressive, most stock averages are barely in positive territory since the beginning of the year.

While the Dow Jones Industrial Average, which measures the performance of thirty large companies, is still down about 3.5% *year-to-date*, The Standard & Poor's Index of 500 large companies is up 2%. The broadest measure of stock prices, the Total Market Index, is up 3.7% for the *year*. In general, small-company and mid-size stocks performed better than large-company stocks.

Technology stocks were standout performers this year – up 19% during the second quarter and up 24% for the year. International and emerging market stocks also performed particularly well during the second quarter.

The following chart displays sample returns of various asset categories during the second quarter of 2009:

2009 <u>2nd Qtr</u>	**Index Return <u>*(includes dividends reinvested*</u>)**
+ 12.0%	**Dow Jones Industrial Average**
+ 15.9%	**Standard & Poor's 500 Index**
+ 16.8%	**DJ U.S. Total Stock Market (Broad Market)**
+ 15.1%	**Large-company stock-Growth**
+ 16.3%	**Large-company stock-Value**
+ 17.5%	**Mid-Size Stocks – Growth**
+ 20.2%	**Mid-Size Stocks – Value**
+ 21.2%	**Small-company stock- Growth**
+ 23.4%	**Small-company stock- Value**
+ 24.5%	**International (excludes U.S.)**
+ 36.9%	**Emerging Markets**
+ 29.6%	**Real Estate Investment Trusts**
	<u>*Fixed Income*</u>
+ 0.6%	**Short-term U.S. Treasury *(includes appreciation)***
+ 0.6%	**Intermediate U.S. Treasury *(includes appreciation)***
	<u>*Alternative Investment Category*</u>
+ 6.6%	**Gold**
+ 23.8%	**Natural Resources**
(0.3%)	**Managed Futures**
+ 14.0%	**Declining U.S. Dollar**

Stock Prices Are No Longer a Bargain

Since March 9th, 2009 the broad stock market has advanced over 35% - essentially erasing the negative stock returns since December 2008. Three months ago, we encouraged our clients to stay the course; we made the case that stocks were undervalued, and emphasized that the consensus opinion was too negative in stating the economy

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was doomed to remain down for years and years. Finally we suggested that this time the surprise will be on the positive side and will be significant (given today's level of fear). We provided statistics and historical returns showing how quickly the stock market advances after reaching the bottom and how returns were significantly less if investors missed the first few days or months of the advance. We had no idea the stock market would move up so quickly. Now the bargain element is gone and in our opinion, stocks are no longer undervalued.

FUTURE ECONOMIC OUTLOOK

Our economy has a long way to go to achieve a recovery and a return to a normal or healthy status. We have little doubt that someday we will achieve that goal as our country has a 100% success rate in the past. But, it is going to take much longer to reach a stable recovery than this generation is accustomed to and price volatility will continue in magnitude and frequency.

The bottom line is: *Real growth* in the economy along with *permanent job creation* is the only long-lasting solution to our ailing economy and excessive debt. The problem is our policy-makers, corporate leaders and citizens have become accustomed to short-term maneuvering to continue living an immediate and abundant lifestyle. The "tinkering" tools are no longer effective. Lowering interest and inflation rates on a macro level is an effective way to boost economic activity. Except, we already have extremely low interest rates and inflation is actually declining into negative territory. These tools have no effect at this time.

Individuals, families and businesses can no longer access more credit with a simple handshake with their lender and the ever-increasing asset (real estate) that served as collateral for loans has been declining in value. We are stuck with the inevitable conclusion that real long-lasting change and recovery involves a holistic approach, not short-term window-dressing maneuvers.

Unemployment is 9.5% and when temporary or under-employed individuals are considered, the rate is 16.5% and climbing. Federal funds (TARP) have been disbursed after creating or printing money through the use of federal debt. The funds have been "forced" on states for *temporary* use to create temporary jobs. Financial services (primarily banks) and auto companies have received billions of dollars as loans or simply bailout funds. The intent was to allow these companies to stay in business, increase revenues and employment. Instead, most of these companies merged, became smaller or simply filed for bankruptcy. In retrospect, these bailout funds simply dissipated without creating growth or new jobs. The fact that the intention or goal was not accomplished is not a political jab - we had to and should have done something!

The point is these maneuvers discussed above CAN be effective tools to jumpstart a desired movement in our economy …. or not. We are experiencing the latter. We are basically unwinding or experiencing the consequences of over-consuming, over-borrowing, under-saving and under-investing. We will likely avoid a short-term catastrophe, but longer-term growth and new jobs are still scarce and the stock market has rebounded to a level where "less bad" news is no longer good enough to sustain a rally.

The dissipation of bailout funds discussed above is analogous to a family doubling the size of their home mortgage to start a new business and failing. Revenue (growth) or income did not increase and no new permanent jobs were created, but, the debt is still there. The debt is twice as large as it used to be and (interest) payments are still owed for many years. In a simplistic sense, this is a similar scenario our country is facing on a macro level. People experiencing unemployment or wage cuts are less able or willing to *spend the money* needed to stimulate (grow) the economy.

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PORTFOLIO ADJUSTMENTS

What are the implications of our current economic situation and how do we intend to preserve capital and find some growth or income opportunities for our clients' investment net worth? The first theme is growth and income opportunities related to the U.S. dollar. The U.S. dollar's year-long rally came to an end during the second quarter. It is important to understand why the dollar rallied last year in the midst of the worse (global) credit crisis our generation has ever experienced. Over 50% of world currencies in circulation are U.S. dollars. When the global credit (debt) and stock market crisis began last year, the U.S. dollar was still considered the safe haven relative to other countries' currencies. Global investors chose the U.S. dollar and our government bonds as the best place to weather the storm.

When the U.S. and foreign stock markets began to rally on March 10th, the perception changed from eternal disaster to the greater possibility that the world economy is in the beginning stage of recovery, or at least the belief that the bottom had been reached. Global investors began to move dollars into stocks, oil, commodities and emerging markets. As long as the world economy avoids falling back into the "black hole", the focus has changed to the future impact of our country's huge deficit and continued reliance on foreign investors to purchase our government bonds.

Because our government outflows (spending) exceed inflows (tax revenue), our total deficit is enormous. This imbalance has forced our government to create (print money) billions of dollars of debt by issuing IOU's or more commonly known as government bonds which they promise to pay back ….. in the future.

In addition, our lower interest rates compared to other countries' rates makes foreign government bonds more attractive.

The long-term impact of an enormous and growing U.S. deficit along with our lower interest rates relative to other countries is a weakening U.S. dollar. This trend cannot be easily reversed and we see this trend lasting at least into next year. Raising U.S. interest rates would bolster our dollar, but sink our economy. And our government intends to continue "stimulating" our economy by increasing debt. We are stuck.

The continuing trend of a declining U.S. dollar makes foreign government bonds more attractive for our income-oriented U.S. clients. Not only is the interest higher (4%-5%), but a decline in the U.S. dollar also increases the value or prices of foreign government bonds for U.S. investors.

For growth-oriented investors, purchasing "declining U.S. dollar" funds (a bet against the U.S. dollar) results in an increase in the value of declining dollar funds as the U.S. dollar falls in value.

In addition, establishing positions in gold and/or gold mining stocks are also attractive. Gold is a primary barometer of worry – as uncertainty and worry rises, the price of gold rises. We have plenty of worry and concern about the weak global economy, excessive deficits (debt), as well as political and worldwide instability (oil, nuclear weapons, etc.). Later, as the global economy eventually recovers, inflation will likely move back to its normal 3% - 5% or higher range. Higher inflation expectations and higher gold prices are an attractive combination.

In summary, we have already reduced U.S. equities and have started adding foreign government bonds, declining U.S. Dollar funds, gold positions and expect to continue adding energy holdings. We expect to hold or increase foreign stock holdings in the future. The current global economic and investment environment is in a state of flux and will likely continue to be somewhat uncertain. We have experienced and should continue to expect volatility. Stock prices dropped 40% last year and suddenly reversed course and jumped 35% since March 9th of this year. Oil prices rose above $170 per barrel last year, dropped under $40 per barrel six months ago and rose again over 50% this year.

Currently, certainty or preservation of principal earns 2% or less. All other investment alternatives

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offering the potential for greater than a 2% return have some risk associated with them. We believe the best course of action today is to stay balanced, add a 5% to 15% position in the tactical alternatives discussed above and err on the conservative side at this time.

FINANCIAL PLANNING UPDATES

This will certainly be a year of change. Our income tax and capital gains tax rates will be altered. Some form of healthcare reform will be passed later this year. In addition, the estate tax laws will certainly be revised. Our financial planning advice is basically on hold as forecasts and strategic planning are nearly impossible in light of all the expected changes. As the income tax and estate tax changes unfold, we will spend much more time discussing new strategies. At this time, we are not confident in formulating long-term recommendations until more information becomes available.

ANNOUNCEMENTS

Recently, a number of our clients have asked if we are accepting referrals for new clients. Receiving referrals from clients, friends or colleagues are the best confirmation that we are providing value and we are happy to accept new referrals. We appreciate your trust and confidence in our efforts and we will work diligently to maintain that trust and confidence in the future. If you would like for us to send our newsletter to someone who may benefit from our services, please feel free to contact us.

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Best regards

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