BRIAN D. LOWDER, INC.

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INSIDE THIS ISSUE

FINANCIAL MARKET OVERVIEW

Over the final 19 days of the first quarter, stocks rose 25% above their March 9th lows. Although the recent move is impressive, stocks are still in negative territory for the year-to-date ending March 31st. As of April 9th, stocks have rallied further, posting an additional 3% gain, increasing for the fifth consecutive week. Currently, the S&P 500 Index and Dow Jones Industrial Average are within 5% and 7% of their Dec. 31, 2008 values. The NASDAQ index of smaller companies has already reached positive territory. This massive move was the fastest 20% or greater increase in stock prices from a bear-market low since 1938.

In general, small-company and mid-size stocks performed better than large-company stocks. Consistent with historical data, growth stocks outperformed value stocks during the first quarter of 2009. Once again, investment real estate had the worst performance with a 30% decline during the first quarter which followed a similar decline during the fourth quarter of 2008. Excluding modest gains in bonds, gold was the only sector that provided a positive return of 10% during the first quarter.

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

2009 1st Qtr	**Index Return *(includes dividends reinvested)***
(12.5%)	**Dow Jones Industrial Average**
(11.0%)	**Standard & Poor's 500 Index**
(10.7%)	**DJ Wilshire 5000 (Broad Market)**
(3.7%)	**Large-company stock-Growth**
(13.2%)	**Large-company stock-Value**
(3.9%)	**Mid-Size Stocks – Growth**
(10.7%)	**Mid-Size Stocks – Value**
(8.1%)	**Small-company stock- Growth**
(15.3%)	**Small-company stock- Value**
(12.7%)	**International (excludes U.S.)**
(1.8%)	**Emerging Markets**
(30.1%)	**Real Estate Investment Trusts**
	Fixed Income
+ 0.2%	**Short-term U.S. Treasury *(includes appreciation)***
+ 0.6%	**Intermediate U.S. Treasury *(includes appreciation)***
	Alternative Investment Category
+10.7%	**Gold**
(8.1%)	**Natural Resources**
(3.7%)	**Managed Futures**

MANEUVERING THROUGH THE FINANCIAL MARKETS

Trying to time the market or choosing to follow the consensus opinions of experts on the financial news channels or newspapers is futile. The *short-term* movements in the financial markets are unpredictable and primarily reflect the immediate reactions of traders to new information, exogenous

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events and unexpected news. Given the global nature and complex interactions of the world markets, we believe consistent performance can no longer be attained by simply buying and holding individual stocks or mutual funds indefinitely. Some adjustments or tactical moves should be made when the probability of change and the strength of that conviction are relatively high. It is perfectly acceptable to be *early* in reducing exposure to any individual holding or asset class and it is equally acceptable to be *early* when increasing or adding exposure to certain asset classes. But, it is rarely acceptable or profitable to follow the crowd and end up being late to sell or late to buy.

Over the past decade, our objective has been to implement changes early and when the strength of that conviction was strong – otherwise, we maintained our clients target exposure to specific asset classes. In late 1998, we began reducing exposure to technology and internet stocks. Investor exuberance for technology stocks was irrational, stock prices were unrealistic, and our conviction regarding overvaluation was strong. Therefore, changes were implemented and the "timing" of our tactical decision to reduce equities was made over one year in advance of the correction (which began in March 2000). Contrary to the media reports and investor (over)confidence, the pin finally found the balloon and the downward adjustment to stock prices turned out to be swift. In this case, adjustments to client portfolios were justified and the eventual market impact was somewhat predictable (although the exact timing was not).

On the other hand, the September 2001 terrorist attack was an exogenous event that was unpredictable and had a significant adverse impact on the financial markets. Stock prices plummeted significantly over a two-year period. This event was horrifying and panic was rampant (similar to investor reaction to today's credit market collapse), however we did not believe the financial consequences would result in a long-term negative impact on growth assets (i.e. stocks and real estate). Our advice was to stay the course, and limit selling for tax-loss purposes only with immediate re-purchases. This event is an example of non-market risk that is not predictable and can't be avoided.

After three long years of negative stocks returns (2000-2002), suddenly stocks jumped 30% in 2003 and most investors who had sold out earlier missed the entire advance. The precise timing of the 2003 move was unpredictable; however, the assessment of whether or not these combined events (technology bubble and terrorist attack) would impact our financial lives for many years (as reported in the financial press) was evident in the underlying strength of the economy and real estate values.

In our view, the growing real estate bubble (2003 – 2005) was clearly evident with plenty of warning signs and time to react. However investor reaction was similar to the technology craze where the most common reply was "but prices keep going up!" Our decision was not only to reduce, but eventually eliminate real estate holdings from client portfolios. In retrospect, our conviction was strong and the reductions were made nearly two years before the correction. Again, this is another example of macro-events in motion that lead to a reasonably confident conviction of change – yet the precise timing is unpredictable.

Finally, the credit crisis of 2008 was an extension of the real estate bubble. I do not recall anyone providing a specific and timely forecast of severe global banking and financial crisis or significant global stock market declines until after the problem was exposed and the equity market declines were already set in motion. More on this topic later in this newsletter but suffice to say at this point that if the U.S. and many other countries were not coordinating their efforts in the manner they are to end this credit crisis, then our outlook would mirror the financial press reports. Recall, Japan suffered the same problem in 1989, chose not to reveal the true condition of their structural financial problems and instead ignored the necessary steps to correct the problem for 5 years. Their stock market is still down 77% since 1989!

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The multiple points we are making are: 1) the financial markets can and will continue to react irrationally over the short-term and volatility in market prices will increase; 2) tactical portfolio adjustments should be made *early* and only when the strength of the decision-maker's convictions are high and backed by supporting unemotional analyses; 3) short-term market-timing decisions that significantly alter portfolio asset allocation and are based on fear and/or media reports, will not translate into achieving successful long-term investment performance.

Review the chart below illustrating the directional changes to the U.S. stock market and common investor reactions to the changes that have occurred since September 15, 2008. How can anyone reasonably expect themselves or their professional advisors to navigate through all of the short-term and random movements of the stock market?

Historical Stock Price Movements and Sample Investor Comments/Responses Since September 2008

Start Date	*End Date*	*Number of Trading Days*	*% Gain or Loss*	*Comments*
9/15	*9/19*	*5*	*4.51%*	*Nice week*
9/22	*10/1*	*15*	*(27.4%)*	*What's happening? Should I get out?*
10/13	*10/13*	*1*	*10.3%*	*Huge 1-day move – glad I didn't blink*
10/14	*10/15*	*2*	*(10%)*	*Maybe not. This is weird*
10/16	*10/20*	*3*	*8.8%*	*Scary, but headed in the right direction*
10/21	*10/27*	*5*	*(14.1%)*	*Not again! I should have sold 2 weeks ago*
10/28	*11/4*	*6*	*18.7%*	*Never mind. The "experts" are wrong*
11/5	*11/20*	*12*	*(24.5%)*	*Maybe the television news is right. I can't take this volatility anymore. I need to get out!*
11/21	*11/28*	*6*	*18.6%*	*I'm glad I didn't sell last week. Go Obama!*
12/1	*12/1*	*1*	*(8.75%)*	*Not again. What's going to happen tomorrow?*
12/2	*12/31*	*22*	*9.8%*	*Looks like we are back on track. Or are we?*
1/02	*1/15*	*10*	*8.5%*	*Januarys are nearly always good months*
1/16	*1/20*	*3*	*(5.2%)*	*This doesn't look good. Maybe I should bail.*
1/21	*1/28*	*6*	*8.5%*	*Finally I made some money this month*
1/29	*2/23*	*18*	*(12.0%)*	*I just lost January's gain and I'm still way down*
2/24	*2/24*	*1*	*3.8%*	*Turn off the TV. Everything is OK*
2/25	*3/9*	*10*	*(12.0%)*	*Why didn't I sell back in January! I'll do it now*
3/10	***4/9***	***23***	***26%***	***Why did I sell!!!!***

Investors have already suffered unbearable declines in stock prices, real estate values and most other asset classes in 2008 and perhaps lingering longer in 2009. Investors have already paid the price; why don't they want to see the rest of the show? Moving all of your investment account balances into cash, money market funds and certificates of deposits at the lowest point in the interest rate cycle in over forty years would perfectly prepare you for 2009 – if 2009 will be a repeat of 2008. What is the likelihood of that scenario occurring? Can you recall any single year over the past twelve years that has been a repeat of the previous year? Instead, you should be considering how the economy and financial markets will surprise us later in 2009 and 2010.

In the past sixty years, on average, stocks rise 30% in the twelve months after bottoming. The dilemma is suffering through the decline in search of the bottom. Today, the S&P 500 (basically the 500 largest companies) yields 3% dividend income - more than the interest paid on 10-year U.S. treasury bonds. Even if the US economy fails to grow for ten years, you should still earn more income on stocks bought today than from a ten-year U.S. Treasury bond. You can earn 25% more annual income than the current interest earned on certificates of deposits and 300% more annual income than the current return from money market account dividends.

When the market turns around, it does so suddenly. Again, one year returns after the market bottoms average over 30%. On average, the market recovered to its previous high in 1.5 years. Waiting too late to get back into the market by only one week reduced the first-year return to 24.3% and delayed full recovery to 2.5 years. If you missed the first three months of the recovery, you only gained 14.8% and took 3 years to recover.

Over the last 25 years, the stock market earned an *average annual return* of 9.8%. However, if you missed the best 25 days out of 25 years, you only earned 3.5%. How confident are you that you are

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able to pick when to be in or out of the market? *The chart on the previous page should clearly answer that question. Predicting market moves on a daily, weekly, monthly or quarterly basis is …… impossible.*

Presently, over 50% of household wealth or over $1 trillion dollars was moved into money market mutual funds in the past two years. This is the highest amount on record. Once stocks have had a quarter or two of recovery, stand back as the “me too” investors join the crowd.

Future Economic Outlook

What do I expect to happen in 2009, and why? The U.S. Government and central bank are joined by concerted efforts with foreign governments and central banks. They are working to restart global economic growth. Arguably, the U.S. Government bailout could be executed more effectively, is unfair, perhaps immoral, and certain corporations and individuals will not be held accountable for their greed and mistakes. However, this is one area where, if you throw enough money at it, you will get results.

We expect that the multi-trillion dollar efforts by global governments and banks will begin to show positive results during the year. We expect that lowered mortgage rates will help slow the decline of housing prices. We don’t have a specific time frame on whether housing will bottom this year or next, but we are closer to the bottom than most Pundits suggest. As a group, prices of depressed homebuilder stocks jumped 40% from their lows on March 9th through March 31st. The recovery for homebuilders is not necessarily underway, but the perception is the worst news is behind us.

As the financial system stabilizes, as companies and individuals are again able to borrow money for productive purposes, expectations for the economy (the summation of government and corporate activity) will increase, as will expectations for company profits. This will lead to stock market gains. This scenario must occur *first* before the repercussions of the recent government bailout begin to affect interest and inflation rates – the latter being a theme many investors believe is imminent. We believe the massive debt bailout will have repercussions down the road, but imminent increases in interest and inflation rates are not the next step or economic scenario. When this scenario does arrive, we will react accordingly with many suitable investment choices.

How much change occurs in 2009 and how much occurs after 2009 will depend on factors beyond my visibility. I do expect stocks will end the year with a better than 10% return for large stocks, small stocks, US stocks, and foreign stocks. I expect treasury bonds and all fixed income (except bonds with maturities of two years or less) to lose money in 2009. Why? Best case scenario, interest rates will stay flat, but eventually will rise as the recovery begins to take hold (rising interest rates will lower the value of all bonds – Treasuries, corporates municipals etc.)

The critical question is: Can you afford to keep invested in stocks? Your stocks lost 40% or so in 2008. You can’t afford to lose that much again.

Twelve months ago the consensus was that the economy would muddle through the housing and subprime problems. The surprise was on the negative side, and it was significant. This caused stocks to tumble. The consensus at this time, which I do not share, is that the economy is doomed to remain down for years and years. I strongly believe that this time the surprise will be on the positive side, and will be significant (given today’s level of fear). This expectation has already begun to unfold over the past four weeks (stocks are up 26% from March 9th through April 9th).

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I have no illusions that it feels awful today. It feels foolish to keep money in stocks. Recognize that these feelings are hardwired into our brains, the result of centuries of lessons of creating trends where none really exist. Actually, the contrary is true. Stocks are much more likely to rise in the year after they have fallen over 30%. Admit that your heart is telling you that investing in stocks today is foolish, but that your head is telling you that investing some portion of your investment net worth in stocks today is a smart choice for the mid-to-long-term.

Recognize the conflict, and be very deliberate in how you resolve it. Recently, we counseled several of our distraught clients to re-frame the decision to stay invested or sell out of stocks as a *personal* instead of an *investment* decision. When our *investment* recommendation is to stay the course (after we reduced stocks by 20% to 40% for our clients prior to 2008), seems unbearable, then make a *personal* decision. If you can't sleep at night or feel you must do something, then the decision is a personal one and you should not grade yourself later on. Acknowledge that what you really want is a fair amount of certainty. But also accept the fact that certainty can only be provided through low-yielding certificates of deposit, short-term Treasuries and money market accounts. Stocks and other growth assets do not, and will not provide certainty. They always have and will continue to fluctuate in value, sometimes widely and without merit. The tendency for stocks, real estate and other growth assets to overshoot rational valuations over very short periods of time will likely increase in frequency and range.

It is not too late to re-establish a normal allocation to stocks but it is still too early regarding commercial, industrial and other investment real estate (although homes, rental properties and other specific private projects appear attractive). Stock prices will fluctuate in both directions over the short-term. As difficult as it feels, the better approach is to be early rather than late.

Retirement Planning & Investment Portfolio Updates

We encourage all clients to request a personal or telephone conference to review their investment portfolio, asset allocation, risk tolerance and retirement planning scenarios. With regard to retirement planning projections, it should be no surprise that most clients and families will be below their long-term accumulation and spending projections made within the last few years. We purposely illustrate multiple scenarios (different investment returns, savings rate, retirement spending levels, full retirement date, life expectancy, etc.) to account for expected and unexpected changes. Throughout your lifetime, you can expect to vacillate between the expected, optimistic and pessimistic forecasts as life outcomes and the financial markets are constantly changing.

In pursuit of a faster recovery, consider the main themes in this newsletter regarding making (or not making) investment portfolio changes, maintaining portfolio balance, avoid using credit to expand your standard of living beyond income, resist believing the good or bad times will continue on forever, save, and avoid repeating mistakes of the past.

We have purposely focused on the financial markets and long-term retirement planning in this newsletter because of the unusual and frightening status of our economy and financial markets. Additionally, both estate and income tax laws will be changing this year and therefore long-term planning using existing tax law assumptions should be deferred. Those clients who have the choice to receive or defer additional income/capital gains in 2009 or 2010 should contact us for a planning discussion.

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Income Tax Data & Income Tax Returns

Our clients have already received a full accounting of income and capitals gains for the 2008 calendar year. Please request paper or computer file copies of your 2008 income tax returns be mailed or emailed to our office upon completion. Our investment decisions and income tax management strategies are greatly improved when we have copies of your income tax returns.

Contact Us

Brian D. Lowder, Inc.

Brian D. Lowder, CFP®, CFA
Michael Kinnear, MBA, MSFS, CFP®
Clinton Winey, MBA, CFP®, CFA
Remette Martinson
Pamela Priest

Address
12780 High Bluff Drive   Suite 100
San Diego, CA 92130

Telephone
(858) 794-6800

Fax
(858) 794-6906

Website
www.bdlowder.com

Email
brian@bdlowder.com
mike@bdlowder.com
clint@bdlowder.com
rm@bdlowder.com
pam@bdlowder.com

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Best regards

Brian Lowder   Clinton Winey   Michael Kinnear   Remette Martinson   Pam Priest