



August 31, 2009

Since our emails to you on March 10th and 23rd about the market's bottom, the stock market advanced quickly in March, April and May, stalled in June, did a short dip in early July, and then rallied sharply through last week. We suggested in our first Quarter Newsletter, and acted upon for our accounts: transitions into small and medium cap stocks, switched from growth to value stocks, and moved into developing international markets. We also took early positions in commodity pools and more recently, in anti-US dollar bets. These have worked nicely so far, but we feel a transition in the air.

Basically, with the stock market up over 50% the easy money has been made and we believe that we are entering a range bound time period with the Dow Jones trading between 7,500 and 9,500 for the next few months. We are making the following changes and wanted to keep you informed:

- 1) We are recommending and taking profits on half of the riskiest assets that have run back up so quickly. Namely, junk bonds, foreign stocks (China is up 79% and India is up 57% year to date), and some commodity based stocks. This is a defensive move and we hope to re-enter these positions on a future dip in prices.
- 2) In general, we would have a neutral to underweighting in stocks today and overweight medium-term high grade bonds, preferably non US dollar correlated. Most accounts have taken some profits and raised cash.
- 3) While we feel that the economy will be much healthier in 2-3 years, it will be a volatile road with several tradable dips along the way. High, stable income will be an important part of our accounts during this period. If/when the Dow Jones drops to about 7,500, we are planning on adding to stock portfolios with a combination of value stocks, emerging growth countries, technology, and larger companies that do international business in healthy foreign countries. We will also add to commodity and non-dollar investments on dips to prepare for future inflation and a weaker dollar.
- 4) We still like our healthy hedge funds and believe this future environment will be good for them.



- 5) Finally, we still like Self Storage real estate as many properties can be acquired at attractive prices and we believe that the month-to-month rental market bottomed in April. We see yields of 9% (partially tax sheltered) available from stable properties in healthy states like Texas.

It is actually a very good time to be a conservative income-oriented investor as most of the volatility and risks are behind us and you don't have to stick your neck out very far to achieve attractive income.

Respectfully, Mark