



RETIREMENT FINANCIAL SERVICES, INC.
WEALTH MANAGEMENT AND RETIREMENT SOLUTIONS EXPERTS

Weekly Commentary
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The Markets

With 2008 in the history books, we'll use this week's commentary to review some of the key stories over the past year. As you well know, it was not one of the market's finest performances.

Returns through 12/31/08	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrial Average	-33.8	-6.4	-3.4	-0.5
NASDAQ Composite	-40.5	-10.6	-4.7	-3.2
Standard & Poor's 500	-38.5	-10.2	-4.1	-3.1

Sources: Yahoo! Finance, Barron's. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. Three-, Five-, and 10-year returns are annualized. Assumes dividends are not reinvested.

STOCKS SUFFERED MIGHTILY

Global stock markets shed about \$30 trillion dollars in market value over the past 12 months. Of that, about \$7 trillion came from losses in the U.S. market, according to Bloomberg.com. In fact, the drop in the S&P 500 index was the worst annual loss since The Great Depression. Also according to Bloomberg.com, Tunisia was the only country out of 69 monitored by MSCI Inc. that saw a stock market gain in 2008. When it came to stocks, there was virtually no place to hide.

INTEREST RATES DIVERGED WILDLY

It was a tale of two markets when it came to interest rates. The flight to safety turned U.S. government securities into the investment of choice for many investors and the resulting demand sent yields plunging. The Federal Reserve helped lead the way by cutting its key interest rate seven times in 2008. The Fed Funds rate went from 4.25% at the start of the year to a target rate of 0% to 0.25% by the end of the year. Conversely, investors fled corporate bonds and municipals, which helped drive a spike in their yields, according to *The Wall Street Journal*.

THE COMMODITY BOOM WENT BUST

We've heard for years that countries such as Brazil, Russia, India, and China will drive worldwide growth and keep demand high for commodities such as oil, copper, and food staples. Well, it worked for a while. By mid 2008, commodity prices were flying high. But, then, sentiment changed and investors began to realize that economic growth was slowing and there may be a limit to the world's demand for goods. Commodity prices quickly tumbled. Oil is a good example as it surged from around \$100 per barrel at the start of 2008 to over \$145 by July. It then plunged and ended the year near \$45 per barrel, according to Bloomberg. And, you don't need us to tell you about the dizzying trip of gasoline prices this past year.

HOUSING PRICES CONTINUED TO FALL

In hindsight, a crack in housing prices in late 2006 was one of the first signs that our economy was headed for trouble. Since its July 2006 peak, housing prices have fallen 23% through October 2008, according to the S&P/Case-Shiller Home Price index as reported by *The Wall Street Journal*. The decline in home

prices removed one of the economy's growth engines and, when that stalled, it helped take the rest of the economy with it. On the bright side, mortgage rates continue to drop. Thirty-year fixed rates are near record lows at 5%, according to the Mortgage Bankers Association. And, if the government gets its way, those rates should head toward 4.5%, according to *The Wall Street Journal*.

UNEMPLOYMENT CONTINUED TO RISE

Since this recession started in December 2007, the U.S. economy has added 2.7 million people to the unemployment rolls, according to the Labor Department. President-elect Obama has stated that he'd like to create 3 million new jobs as part of his administration's plan to help the economy, according to MarketWatch. While that may seem like a big number, by the time his plans get rolling, we may have lost much more than 3 million jobs. That just gives you an idea of the magnitude of the problem we're dealing with.

WHERE DO WE GO FROM HERE?

Our country is facing a near perfect storm of economic headwinds that most of us have not seen in our lifetime. Years of easy money and a conspicuous consumption lifestyle have finally caught up with us. In 2008, the financial markets woke up to the fact that we can't indefinitely spend money we don't have. Now that consumers and businesses are de-leveraging, the resulting effect on the economy can be summed up in one word: contraction. The government is trying to counteract this consumer and business freeze by spending money it doesn't have. So far, the government is successfully walking a fine line between being the "spender of last resort" and being called out as the "wizard behind the curtain." As evidenced by the decline in Treasury yields and the stable dollar, investors worldwide are putting their faith in that wizard. Don't be surprised, though, if that faith is tested at some point in 2009.

Weekly Focus – A Thought for the New Year

"Year's end is neither an end nor a beginning but a going on, with all the wisdom that experience can instill in us."

-- Hal Borland

Best regards,

Dave Shepherd, ChFC, CFP®
President/Financial Advisor

David W. Shepherd, Jr., CFP®
Financial Advisor

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* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

- * The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks.
- * The Nasdaq Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.
- * Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
- * Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

- * Consult your financial professional before making any investment decision.

- * Past performance does not guarantee future results.