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

Weekly Commentary
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The Markets

Despite another harrowing decline in the banking sector last week, the overall stock market has been holding up rather well, considering the circumstances.

Many analysts thought the worst of the banking crisis was behind us, but Citigroup and Bank of America reminded us last week that all is not well in the land of lending. Both firms reported earnings last week that were nothing short of ugly. This latest rupture in the banking sector has government officials looking at fresh approaches to contain the problem. One idea being floated around is to create a government bank to buy up bad assets. Officials think that ridding banks of bad assets will enable them to open the lending spigot again.

So, how can we say the overall market is holding up reasonably well? Two measures show some optimism. First, as of last Friday, the percentage of stocks in the S&P 500 index trading above their 50-day moving average was 40%, according to Bespoke Investment Group. By contrast, during the October and November lows in the market, this figure was near 0%. This suggests the recent new leg down in the market is not as broad-based as last quarter's drop.

Second, during panic selling on October 10, 2008, more than 2,400 stocks on the New York Stock Exchange closed at new 52-week lows. By contrast, last Friday, less than 100 stocks closed at a new 52-week low price, according to StockCharts.com. Again, this suggests that even though the market averages are nearing the November price lows, the decline is not as broad-based as it was late last year.

In short, sellers appear to be a little more discriminating in what they're selling. This may be an early sign of "reason" returning to the markets.

Returns through 1/16/09	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrial Average	-3.7	-5.6	-31.6	-8.7	-4.8	-1.2
NASDAQ Composite	-2.7	-3.0	-34.6	-12.8	-6.5	-4.4
Standard & Poor's 500	-4.5	-5.9	-35.9	-12.8	-5.7	-3.8

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.

HOW WOULD YOU LIKE A GOVERNMENT GUARANTEED RETURN of 13.25% per year for 25 years? Sound too good to be true? In today's environment, that's absolutely too good to be true. However, if we turn the hands of time back about 25 years, that's exactly what the U.S. government was offering.

On May 15, 1984, the Treasury department auctioned $5 billion of 30-year bonds (callable after 25 years) with a fixed coupon rate of 13.25%. This means you could have purchased bonds with the backing of the

U.S. government and been guaranteed a double-digit return for a minimum of 25 years. In the context of today's environment, with 30-year Treasury bonds yielding less than 3%, that is absolutely incredible.

Why were government bond yields so high back in May 1984? Well, if you recall, the memory of the 1970s energy crisis, double-digit inflation, stagflation, recessions, and a general malaise were part of the national psyche. That, coupled with the failure of Continental Illinois National Bank and Trust that same month, made people reluctant to lock up their money at a fixed rate. In order to entice money out of the mattress, the government had to offer a very high interest rate.

With the benefit of hindsight, buying and holding that 30-year government bond would have been a brilliant investment for many investors. Ironically, today, we face almost the exact opposite situation with the 30-year bond. The yield is below 3%, yet investors are clamoring to buy it. Are investors who buy 30-year bonds at today's low yields making the same mistake as investors who were too scared to buy 30-year bonds at a 13.25% yield 25 years ago? In other words, are they doing the wrong thing at the wrong time?

As advisors, we find it instructive how times change and how fear plays a role in the value of investments. Back in 1984, people were fearful of locking their money up at an historically high interest rate with the memory of the previous decade's bad news still fresh in their minds. Today, the fear of losing money has driven down the yields of 30-year bonds to near historic lows as investors seek out the safest investments.

All this leads us to the stock market. It's possible that the declines we've seen in the stock market over the past year have led us to a situation similar to the May 1984 bond market. Specifically, fear and legitimate economic woes have caused the stock market to drop dramatically, but will we – perhaps 10 years from now – look back and say, "Oh my gosh, it would have been a brilliant investment to go long in the stock market back in 2009."?

It may take years before we know the answer to that question, but at a minimum, it's important to put the current maelstrom in historical context. As George Santayana said, "Those who cannot learn from history are doomed to repeat it."

Weekly Focus – Think About It

"The ultimate measure of a man is not where he stands in moments of comfort, but where he stands at times of challenge and controversy."
-- Martin Luther King, Jr.

Best regards,

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* 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.
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