



Market Commentary
James V. Saccardi, Trust Investment Manager
February 2, 2009

Market Returns

	January 2009	December 2008	Full Year 2008		January 2009	December 2008	Full Year 2008
DJIA	-8.8%	-0.6%	-31.9%	MSCI EAFE	-9.9%	+5.9%	-45.1%
S&P 500	-8.6%	+0.8%	-37.0%	MSCI Emerg Markets	-6.6%	+7.6%	-54.50%

It's Getting Harder to be Bullish, but... The Dow and the S&P 500 had their worst January ever. Nonetheless, both are significantly above their November 20, 2008 lows, by 5.9% and 9.8% respectively. While it is difficult to be bullish, a Leuthold Group report offers some guidance. They report \$8.85 trillion in bank deposits and money market funds, equal to 74% of the market capitalization of all US companies, the highest level since 1990. That said, we are not at historic highs for this metric. Bloomberg reported, "In July 1982, money of zero maturity as a percentage of the U.S. stock market's value rose to 95% before a 20-month bear market ended, and the S&P 500 began a six-month, 36% advance."

Emerging Markets Last year emerging markets posted an horrific 54.5% decline. A longer-term view tells a different story, as they showed annualized returns of 5.1% for 5 years, and 6.6% for 10 years, trouncing the S&P 500's 5 and 10 year returns of -2.2% and -1.4%. PIMCO asset management, in their January Emerging Markets Commentary, stated: "...emerging economies are undergoing a secular journey toward a destination characterized by higher standards of living and greater reliance on domestic sources of demand." Thus PIMCO, as well as our own independently-provided investment model, still recommends some emerging markets exposure to achieve long term appreciation.

Treasury Bubble Seeking to abate the financial crisis, our government has inadvertently caused a bubble in US Treasury bond prices, and a concomitant steep drop in yields. Investors, desperate for safety, drove the 90-day T-bill yield to 0.01% at year end, ending January at 0.15%. The 30 year Treasury bond issued at a face value (\$1,000) last summer now trades at \$1,117, down considerably from its year-end high of nearly \$1,300. The Treasury bubble will deflate as investors regain their appetite for risk. Seeking to revive their economies by slashing interest rates, global central bankers may overshoot the mark, causing inflation and rising yields not experienced since the early 1990's.

Treasury Inflation Protected Securities (TIPS) Should Treasury yields continue their recovery, fixed income investors may flock to TIPS, which link the safety of Treasury debt with protection against inflation. TIPS, which represent only 9.2% of the government's marketable debt securities, link their principal amount with the Consumer Price Index, and will increase or decrease depending on the CPI's movements. A fixed interest rate is paid semi-annually based on the adjusted principal, and will likewise fluctuate with the CPI. Due to their relative scarcity and attractiveness in an inflationary economy, we are slowly adding TIPS to our clients' fixed-income portfolios.

Paying our Dues In *The New York Times* January 25, Mark Hulbert observed how, over the past quarter, even the most highly-rated mutual funds lost nearly as much money as the market itself. His conclusion spoke to all investors, not just those in mutual funds, and our experience since last September:

"The bottom line is this: Periods like the last quarter are an inherent part of equity investing. Painful as they are, their very existence helps explain why stocks, in the long run, have outperformed safer investments. Without a risk premium, investors wouldn't endure stocks' ups and downs. So think of the last quarter as the price we must pay to be equity investors. We've definitely paid our dues."

Our comment: "AMEN TO THAT, BROTHER!"

The views expressed in this commentary are those of Citizens Wealth Management and are subject to change at any time. They do not necessarily reflect the views of UVEST Financial Services or any other person in the UVEST organization. The commentary was prepared from sources believed to be reliable but no representation can be made as to its accuracy or completeness. For general information purposes only and not intended to provide specific advice to any individual. All indices are unmanaged and cannot be invested in directly. No forecasts can be guaranteed. Past performance is no guarantee of future results.

888.645.4121 • www.CitizensWM.com

Securities are offered by and Investment Consultants are registered with UVEST Financial Services; member FINRA/SPIC. UVEST and Citizens Wealth Management are independent entities. **Not FDIC Insured - Not Bank Guaranteed - May Lose Value - Not Guaranteed by any Government Agency - Not a Bank Deposit**