TW Advisors, LLC

NEWSLETTER
JANUARY 2009

A NEW YEAR - GOODBYE 2008!

Good riddance to a lousy fourth quarter and year! The housing bubble that reaped havoc in the financial markets morphed into a global economic crisis with alarming speed in the final months of 2008. The S&P 500 was down nearly 22% in the quarter bringing the yearly total to a decline of 37%. Worldwide stocks lost 42% of their value in 2008, as calculated by the MSCI world index, erasing more than $29 trillion in value and all of the gains made since 2003. Unfortunately among risk assets (stocks, commodities, and real estate) there was no place to hide; every asset class absorbed significant losses highlighting the severity of the current economic crisis.

The environment in the second half of the year was truly unprecedented. Since 1950, over a span of nearly 15,000 trading days, the S&P 500 has gained or lost 4% or more in a day only 68 times (33 down, 35 up). Of those 68 days, 28 (40%) occurred in late 2009. October was the worst month for the S&P 500 in 21 years but the final week was the best week for the market in 34 years making October the most volatile in the 80-year history of the index. At the market low in November, 40% of the Russell 3000 index stocks were trading below $10; the S&P 500's indicated dividend yield rose above the 10-year Treasury yield for the first time since 1958; nearly 40% of S&P 500 stocks were below $4 billion in market capitalization, the minimum new stocks must meet to be added to the index; the S&P 500 hadn't been as far below its 200-day average since 1932; and the S&P 500's annualized 10-year real (inflation-adjusted) return was a negative 3.8%, an all-time low.

Excessive debt is the root of this crisis and is the reason its recovery will likely be drawn out. Total private and public debt in the US rose from about 155% of gross domestic product in the early 1980s to about 340% by the middle of 2008. Average household debt rose from about 75% of annual disposable income in 1990 to very nearly 130% today. Unbelievably, one in five mortgages exceeds the value of the home it was used to purchase. This escalation of debt peaked in 2008 and will reverse course from here. The US consumer is going to save more, which is positive over the long term, but suggests our recovery from this downturn will me muted.

On a positive note, the market has rallied off the November low despite a worsening of the economic data, in part, due to President-elect Obama naming his well-regarded economic team early and expressing his intention to combat the downturn with a meaningful stimulus package.

Additionally, the Federal Reserve is also doing its part to jump start the economy.

The Fed has announced its intention to use every tool available to stimulate the economy: (1) the target Fed funds rate is now 0% to 0.25%; (2) they plan to keep rates low for an extended period of time; and (3) they will attack longer term rates by buying longer dated Treasuries and possibly other securities. These actions clearly demonstrate the Fed is determined to keep deflationary pressures at bay. **In essence, the Fed is attacking cash, trying to make holding cash as unattractive as possible and get investors to move their savings to higher risk assets like stocks and bonds.** These efforts have started to bear some fruit. Short-term credit markets have improved the most, and recently we've even seem some thawing of long-term credit markets.

Between money markets and short term Treasuries there is a tremendous amount of cash currently, so if the Fed is successful, a flood of demand for stocks and bonds could be unleashed. **Even if the Fed is successful, we don't expect the market to move up all at once, but to test the patience of investors with more backfilling sell-offs from time to time while hopefully creating a pattern of higher lows.** It is our intention to take advantage of market volatility through building gradual cash positions on market strength and reinvesting on periods of weakness.

The savage bear market has driven valuations on all companies to very low levels. **Therefore, this is a great time to add to the companies that have the best risk/return outlook.** Our emphasis is on companies with solid balance sheets (little to no debt or the need for debt), strong competitive business advantages, exposure to the global infrastructure theme, and little direct exposure to the US consumer.

Despite considerable challenges ahead for our economy we are confident that a diversified portfolio of high-quality stocks will provide attractive relative and absolute returns over the next three to five years. Thank you for your patience and please call if you have any questions.

As always we appreciate the opportunity to work with you and look forward to answering any questions you might have.

Steve Wenstrup, Jim Tillar, CFA and Tim Roesch

CONFIDENCE AND POLICY

While the future outlook is never certain, the global undertaking of corrective actions is at least encouraging. We may never know whose faulty actions were truly behind the "Great Unwinding of 2008" but here on Main Street we are hopeful that the changes that are occurring will favor our brand of analysis which is focused on financial strength and quality. Perhaps the good news will be in the markets' refocus on growth, quality and value versus the trading and leverage games that caused such pain in their demise.

AREAS OF OPPORTUNITY

OUR Newest Strategy:

TW Diversified Select

A Great Entry Level Strategy for Investors concerned about market volatility. In our methodology we use a Short ETF to make interim adjustments to Allocation with fewer trades. We believe this ideal for a market likely to rise and backfill in stages on its way to recovery.

SIGNS OF IMPROVEMENT

INTEREST RATES DROP

Libor Rate (see chart) falling

Mortgage Rates Falling and Applications Rising

Volatility has Moderated