

## October 2009 – Standing Firm

What a difference a year can make! October of 2008 found the Dow Jones Industrial Average trading near 11,000 the S&P 500 index trading near 1200. March of 2009 produced levels of approximately 6,469 on the Dow and 666 on the S&P 500 index. As this letter is written (September 23, 2009), the Dow stands near 9890 and the S&P 500 stands near 1070. If one had been stranded on a desert island for the past year, one would probably be less emotionally scarred and much calmer about the world of investing. Once again, we will not dwell on what occurred over the past year, but try to look ahead to the next year.

At this moment in time, the economy seems to be in the process of healing. We spoke in July 2009 about a lack of clarity of vision of the future. The outlook for the future does appear to have more clarity at this point. Normally, the consumer provides nearly 70% of the spending power of the US economy<sup>1</sup>; that appears to have been reduced markedly as unemployment grows and overall savings rates increase. People are simply living with less excess, saving more, and spending less. This would be bad news for an economic recovery if it not be, political views aside, for the intervention of congress, the Federal Reserve Board, the U.S. Treasury and other central banks throughout the world, the FDIC, and other government agency interventions. In effect, governments around the world have "stepped into the gap" to avert a total free-fall. Economically, again politics aside, it appears to be working. In our opinion the economy seems to be stabilizing. Yet, there could be major concerns at the forefront of many minds: Are we spending too much money? Is the deficit becoming unmanageable? Have we mortgaged our future with no possibility of ever paying off the mortgage? Is the government becoming too involved in the economy? Just to name a few.

The Narmi Group acknowledges all of those concerns and many more. Yet, the question remains "what was the alternative?" As is said, you better be careful what you wish for, you might get it! It is easy to look back, but we wrote in October and November of 2008 that it would be possible that you would see intervention the likes of which current generations had never seen. It happened. We also wrote in January 2008 "Don't Fight The Fed" and to not be surprised to see stock markets begin to rise in the face of rising unemployment and continued bad economic news. It happened. What do we see now?

In our opinion, we see an equity market that appears to have already discounted a large amount of good news yet to materialize. In a nutshell, after the massive credit crisis the world had not seen since the 1930's, general equity prices have raced ahead of where we feel comfortable. As always, we urge caution, a well thought out investment and retirement plan, and bargain valuations where they can be found. As always, we advise that investors think long term for their overall investment plans.

Where do we see opportunities for investors that desire lower valuations and possible increasing income as a hedge against possible future inflation? We think that you simply look at the major index returns for the year to date and the answer may become apparent. The NASDAQ index has increased 36% year to date, the broad S&P 500 Index has advanced 18% year to date, where as the narrower Dow Jones Industrial Index, comprised of large cap, dividend paying stocks with a long corporate history is up only about 12% year to date. We think there are potential opportunities in the latter category of stocks for the right investors. We like the lower valuations, the history of paying and increasing dividends, and the long historical record of corporate existence.

We have intentionally been gathering cash the past couple of months in our Narmi Group managed accounts that we plan to invest on market pullbacks within the large cap category. Again, we like what we see and it won't take much of a pullback to put that cash back to work. We feel that given what we have experienced the past two years, taking profits and accumulating cash in reasonable amounts is the prudent thing for investors to do. We find it interesting, to say the least, that the "fear factor" of investing seemed to be as high as we have seen it in modern investment history only six months ago, and today some investors call to see why we are accumulating cash in their portfolio.

Every day that the equity markets show an increase, we run the risk of looking somewhat foolish, yet we remain "standing firm" with our outlook and our beliefs. We want to be wrong, but we may be right and with the high percentages of long term investments that most managed accounts hold, we will still be rewarded if we are wrong. If we are right, the rewards could be higher. In the interim, we are "standing firm".

The market rallies of the past six months have restored value to many accounts. There is much work yet to be done, but substantial progress has occurred in the overall marketplace. We urge you to share some of your newly restored values with your church, family, community and schools. The real dividends of life are paid with these investments.

We thank you for your patience, understanding and trust of the past year. We hope to continue to earn that trust as the future unfolds. We encourage any communication and feedback that you can provide to us. We realize that we are here to work for you!

Best wishes,

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1- Bloomberg

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S&P 500 Index is an unmanaged, market value-weighted index of 500 stocks generally representative of the broad stock market. An investment cannot be made directly in a market index.

Dow Jones Industrial Average is a price-weighted index of the 30 "blue-chip" stocks and serves as a measure of the U.S. market, covering such diverse industries as financial services, technology, retail, entertainment and consumer goods. An investment cannot be made directly in a market index.

NASDAQ Composite Index is a market-value-weighted index of all common stocks listed on NASDAQ. An investment cannot be made directly in a market index.