July 14, 2009

2nd Quarter 2009

Market Summary							
	12/30/08	6/30/09		High		Low	
	$	$	%	$	Month	$	Month
S&P 500 Index (SPY)	90	92	2%	96	Jun	67	Mar
DJ Corp. Bond Index (DJCBPD)	97	102	5%	102	Jun	92	Mar
WI Preferred Stock Index (WIPSI)	15.2	16.9	11%	17.6	Jun	9.2	Mar
WI Real Estate Index (WIREI)	246	248	1%	248	Jun	217	Jan

New Bull? – Too Early to Tell

The 1st half of 2009 has been a fast-moving roller coaster ride. As can be seen above, the investment indices had substantial declines in the first quarter, and then posted equally impressive gains during the second quarter. After the dust settled, most types of investments showed small to moderate year-to-date gains by the end of June.

We've attempted to minimize the volatile effects of this economic climate by keeping large amounts of cash on the sidelines, selling investments that violated our investment parameters and rotating into investments that seemed to be weathering the storm well. In fact, many of our seasoned growth-oriented clients have requested that we add corporate bonds to their portfolios in order to reduce market volatility.

While our research supports the view that this severe bear market is bottoming out, only positive signals from our key time-tested indicators will firmly place us in the bullish camp. Patience is the key to success in this type of investment climate. It took between four and nine months to complete the bottoming process during the severe bear markets of 1973/4 and 2000/02. If we apply that timeline to the present, we expect our indicators to give positive signals anytime between now and September.

Beyond 2009

Regardless of any short-term market advances, we expect investing in the foreseeable future will resemble the economically challenging decade of the 1970's, and that the "easy money" times of the last 25 years are over for a very long time. Simply put, investment strategies are going to have to change in order to deal with new economic realities:

Common Stocks: Historically, early bull market rallies post strong returns. In 1975, the S&P 500 advanced 32%, and in 2003 it increased 26%. Both years produced approximately 45% of all of the index's price appreciation for the following 5 years. We believe that the S&P 500 index will average 9.2% (with dividends) annually over the next 5 years. This is well below the 12.3% total return of the 1980's & 90's. The stock market will probably trade sideways with no new highs during this time. While this is somber news to buy and hold investors, successful navigation of these market conditions is possible through using higher levels of investment rotation, a willingness to hold high levels of cash after significant market advances and using hedging strategies during volatile times. *In other words, WHEN to buy and sell will be as important as WHAT to buy and sell.*

Corporate Bonds: We expect short & medium term bonds in stable companies to yield 7% to 10% annually over the next five years. Since these returns are comparable with the expected results in stocks, average investors should consider shifting a significant portion of their portfolios into the near certain returns of holding bonds rather than risk the ongoing volatility of the stock market.

Preferred Stocks: We expect preferred stocks to maintain double digit yields. When bonds are not available, they can be a good substitute for a 25% allocation in an income portfolio.

When the 2000-02 bear market ended, many of our clients opted for less volatile investments (such as bonds), and were much happier with the portfolio even though the returns were lower than stocks. Similarly, now is a good time to establish new investment strategies, which reflect new economic realities, and for each of us to carefully balance the need to make back what has been lost during this decline and to withstand additional financial volatility in the future.

News & Notes

- **New Client Proposal & Information Forms –** We recently sent out new proposal forms to each client covering the performance goals and strategies for 2009-2013. Due to contractual requirements, it is important that we receive them back with your signed approval ASAP. If you have questions regarding any recommended changes, please contact us at your earliest convenience.

- **Changing Brokerage Houses –** If you have requested to change brokerage houses, we ask that you return the paperwork ASAP to begin the transfer process. Please remember to destroy unused checks and debit cards from the old firm as new ones will be issued by the new brokerage house.

- **Proxy Mailings –** If you receive notices in the mail regarding investments held in your portfolio, please forward them to us, so that they can be handled in a timely manner.

- **Company Retirement Plans –** If you are having us oversee your investments in an employer sponsored retirement plan, please forward us any notices dealing with changes in the plan.

- **New Member of the WI Team –** We're happy to announce that Marc Edwards joined WI as a Senior Portfolio Manager. Marc's previous tenure was with Van Cleef, Jordan, and Wood, Inc. in New York as a portfolio manager and partner. Marc entered the investment business in 1971 and brings a vast amount of knowledge and experience with him.

- **Client Restrictions –** If you made special requests regarding the management of the portfolio (large cash holdings, investment selections, etc.), then please let us know what your overall objectives are, so we can adjust the portfolio accordingly.

- **Annual Client Meetings –** Communication is absolutely critical when it comes to investing. If we haven't talked in the last six months. Please call our office at your earliest convenience to make an appointment for a phone meeting.

- **Brokerage House Selection –** Winans International works with many different brokerage houses in order to serve the wide-ranging needs of our clients. If you are not satisfied with your current broker, please let us know, so we can help you find a firm that is better suited to your needs.

This has been an exceptionally stressful time for all of us. It seems that every day brings another round of scary headlines that make it tempting to sell everything and wait this mess out on the sidelines. The problem is that dire times in the past were often followed by powerful market rallies long before the media's headlines became bullish. Investors who sell out after a major correction rarely reinvest, and usually miss out on recovering what has been lost.

We have devoted substantial time and resources to developing a time-tested plan to deal with potential financial advances and/or continued declines. I feel we are equally prepared for either scenario.

Please feel free to call me directly with your questions or concerns.

Sincerely,

Kenneth G. Winans, CMT