

# GUARDIAN

A PUBLICATION FOR THE CLIENTS OF PORTFOLIO STRATEGIES, INC.

## Market Commentary



With 2008 being the third worst year during the past 112 years of the stock market, I for one am glad to see an end to it. The New Year brings us a new administration and new hope for better things to come. Whether the market rebounds sooner or later, rest assured that Portfolio Strategies' active money management will help to provide protection in downturns and look for opportunities in up turns.

Here's wishing you and yours a happy, healthy, and prosperous 2009!

Les Cathersal  
President

**H**OW BAD WAS 2008? It was the third worst year in the stock market in the last 112 years and it has left many investors angry and confused. Despite tacking on just a small fractional loss in December, the Dow Jones Industrial Average plummeted 33.8% in 2008. The Dow's hasn't performed this badly since 1931, the Great Depression year. The broad S&P 500 stock index sunk even lower, falling 38.5% for the year and the technology driven Nasdaq Composite turned in the sorriest performance of all, down 41.5% for the year. This decline exceeded even the 39.3% plunge following the bursting of the technology bubble in 2000, and the Nasdaq Composite now sits almost 70% below its all time high set in 2000.

Over the past 10 years, stocks as a broad group are down and their performance trails that of almost every other asset class including T-bills, government bonds, gold, and even real estate despite its recent woes. Barring a huge rally in 2009, the decade of the 2000s will mark the first losing decade for U.S. stocks in its history. During 2008, 60% of mutual funds performed worse than the S&P 500's 38.5% loss. This means the majority of buy and hold investors did worse than the market. So much for buy & hold, the mantra of academic cheerleaders and market experts of a decade ago whose

advice has left millions of investors who have recently retired or are close to retirement in dire financial distress.

At some point, experts all agree, the stock market will hit bottom and move higher. And at some time, the experts will finally be right. Market analysts argue that stocks are cheap now. But what is to prevent them from becoming cheaper? They also argue that after taking such a big hit in 2008, stocks are due for a big rebound in 2009, but that hasn't always happened in the past. The Dow's worst year ever was 1931, when the blue-chip average fell 53%. In the next year, 1932, stocks fell again by 23%. Whether stocks rebound in 2009, as widely expected, depends on how successful the policy makers are in stabilizing the economy and credit

markets and getting banks to lend again. Inflation is no longer the major concern but rather deflation, which is a more insidious danger since consumers and businesses will delay spending as they anticipate still lower prices.

With all of the mounting evidence against the buy and hold approach, we are proud to offer tactical money management as part of your portfolio, which allows us to make adjustments in order to help protect your assets. ❁



## Preparation Helps to Protect You from the Unknown

**W**HAT'S THE DIFFERENCE between the stock market and a natural disaster?

This may sound like the beginning to a joke, but natural disasters and the stock market actually have a lot in common. No one knows when disaster will strike and when it will be over, and people are sometimes left wondering how they can make sense of the mess that ensues. The same thing can be said about the stock market of late. While most people will go to great lengths to prepare for natural disasters, most investors either do not know how or choose not to take the necessary steps to protect their investments.

Imagine if there was a clear warning before an earthquake, tsunami, or tornado. People would be able to better prepare and to lessen the damage of property and prevent injuries to themselves and their family members. Unfortunately, there is no definite indicator of a natural disaster, so most people do their best to prepare for the worst "just in case" a disaster occurs.

Many investors believed that they would be able to identify indicators that would alert them of a looming financial

disaster and continued to invest in what looked to be a growing market. However, 2008 proved to be an unprecedented year and even seasoned investors were unable to predict accurately the events that took place. Investments took dramatic losses because there was little done to prepare for such a disaster. Preparation helps to protect you from the unknown.



So why are most investors unprepared for a disaster in the stock market? Most don't know how to protect their investments. Portfolio Strategies' remedy is to make defensive strategies available to add to investors' accounts. While it won't eliminate them, a defensive strategy can help mitigate losses by making changes to the portfolio when times get rough in the stock market. Instead of holding a position in a down trend, a defensive

manager can either reallocate assets to a new fund or move the assets to money market. In short, a defensive manager attempts to move assets out of harm's way.

Portfolio Strategies offers several defensive programs that could be used in your account to help protect your assets from major losses. ❁

## You Can Skip Your 2009 RMDs

**A**NEW FEDERAL LAW lets you skip required minimum distributions (RMDs) on your tax-deferred retirement accounts (for example, traditional IRAs, 401(k)s, 403(b)s, and other defined contribution plans) for 2009.

Normally, investors are required to take taxable RMDs from their tax-deferred retirement savings annually once they turn 70½, or when they inherit such accounts. Legislation enacted in December 2008 waives the RMD requirement for 2009—meaning investors can keep money in retirement accounts where it has the potential to continue growing tax-free until withdrawal.

The law is intended to help investors conserve their retirement resources in the wake of the recent stock market downturn. Supporters of the legislation said it was unfair to require retirees to withdraw funds from retirement accounts severely depleted by the stock market selloff.

The law only affects RMDs taken for 2009. If you turned 70½ in 2008, you have until April 1, 2009, to request your 2008 RMD.

There is currently no legislation in place to extend the RMD suspension beyond 2009.

Contact your financial adviser for additional information. ❁

Source: Vanguard

The Guardian is published by:

Portfolio Strategies, Inc.  
1724 West Union Avenue, Suite 200  
Tacoma, WA 98405  
(253) 383-1676 or (800) 959-2001  
Fax: (253) 383-1033  
E-mail: [psi@portstrat.com](mailto:psi@portstrat.com)  
Website: [www.portstrat.com](http://www.portstrat.com)



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