

Observations

- **Change** was the word that resonated with voters in the 2006 and 2008 election cycles. Well the changes we have seen in our economy have not been for the better over the past two years. Let's prepare for the blizzard of "change" that will be proposed in the coming months and hope it does not leave us asking "friend, can you spare some *change*."
- You will see and hear commentators discuss how stock market returns have been negative over the past 1, 3, 5, or 10 years. **Equity markets look forward** and prices adjust to current news and expected earnings. Markets experience both up and down cycles which are sometimes dramatic. It is normal. History repeats itself, just not in predictable cycles. As you have heard before, past performance is no guarantee of future results.
- **Government spending alone is not the way out of this economic downturn.** In fact, government spending would likely do more harm than good. Can we trust politicians when it comes to spending? Remember Boston's Big Dig? Original price tag was \$2.8 billion; final price tag \$22 billion. With so many financial obligations, the US can no longer afford government pork or boondoggles.

Important Figures

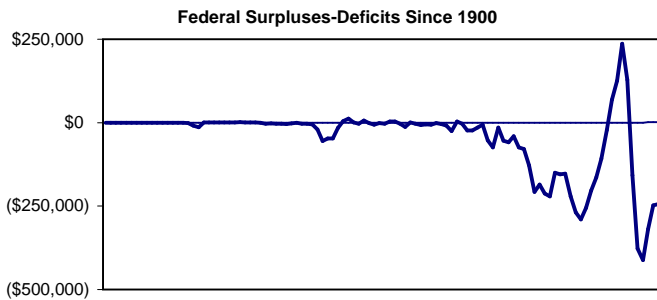
Economic

Salaries for Top Federal Government Positions

	2009	2003	1789
President	\$400,000	\$400,000	\$25,000
VP & Speaker of the House	\$221,100	\$198,600	\$10,000
Senate and House Members	\$174,100	\$154,700	---
Supreme Court Chief Justice	\$217,400	\$198,600	---
Supreme Court Justice	\$208,100	\$190,100	---

From 1789 until 1815, Congressmen received a per diem of \$6 while in session. In 1815, an annual salary of \$1,500 was instituted.

If their compensation and perks were reduced, think will they govern any better?



Financial

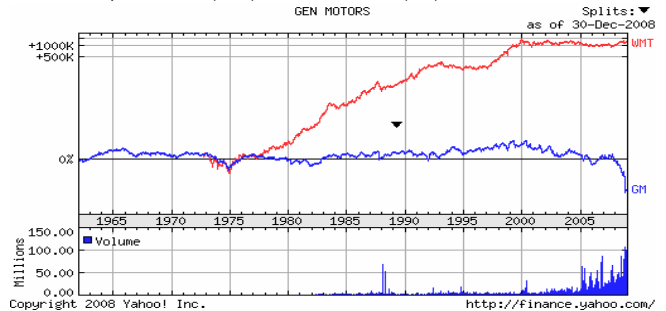
Treasury Yields

	5 Year	10 Year
1978	9.32%	9.15%
1988	9.14%	9.14%
1998	4.56%	4.65%
2006	4.70%	4.71%
2007	3.45%	4.04%
2008	1.55%	2.24%

Equity Markets

	S&P 500	DJWilshire 5000
1978	96	---
1988	278	---
1998	1,229	11,318
2006	1,418	14,257
2007	1,468	14,819
2008	903	9,087
2008 Return	-38.49%	-38.68%

What does this say about America over the past 35 years when comparing the stock price of GM (blue) versus Wal-Mart (red)?



Economic Outlook

- Early indications are that consumers cut back sharply on holiday spending. Consumers will likely keep purses and wallets closed well into 2009. The "de-leveraging" of the consumer has months to go. In the long run, this should be good for America with more financially stable households.
- The employment picture will also not likely brighten until the later in 2009. Businesses will be reluctant to add people until the economic picture becomes clearer. Get those 4.5 million people who are collecting unemployment benefits back to work and watch the economy improve.
- Expect to see a number of retailers who had weak holiday sales to file for bankruptcy. Those that are in bankruptcy for reorganization and surviving retailers will struggle with inventory decisions and pricing strategies. This should help clear any excess inventory setting up for when the recovery arrives.

Investment Outlook

- Call it the January effect or the Obama effect, it would not be surprising to see equity markets begin the first part of 2009 on an optimistic note. From there it gets dicey and future earnings are the key for market support.
- Remember the scene in "Jaws", beach goers are told it is safe to go back in the water, but nobody goes for a swim? The town mayor starts prompting folks to take a swim even though there still may be a shark in the water. Well, Mayor Bernanke and City Council Fed are encouraging us to go for a swim with riskier assets. With interest rates so low on US Government obligations, investors are likely to earn a negative real rate of return (after-inflation and/or taxes) unless they take some risk in the private sector.
- The Federal government has a delicate task ahead in restoring confidence in markets while withdrawing guarantees. How and when does trust return to the private marketplace? Will new regulation prevent a re-run of 2008?

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Insightful Thoughts of Others

The market can stay irrational longer than you can stay solvent.

Regulatory uncertainty is stifling the ability of financial markets to engineer at least a partial recovery.

Former U.S. Comptroller General David Walker puts our nation's total debt and unpaid promises, like Social Security, at roughly \$52 trillion -- an invisible mortgage of \$450,000 on every American household.
- Governors Rick Perry (TX) and Mark Sanford (SC)



A Few More Things

- **Predictions for the coming year** are for entertainment purposes only. Do not put much reliance on them, especially those that involve money. If you need funds for something in the next few years, then keep your money invested safely in cash. Markets are too unpredictable to put funds that will be needed soon at risk.
- **How to fix the economy long-term.** How often do you see groups, especially children, asking for money for a trip or an activity without providing anything in return? What message are young girls learning when their parents are peddling overpriced, bad cookies (pity the unfortunate souls at work who feel obligated to buy them because the boss' daughter is a Girl Scout). Where have the bake sales, lemonade stands, and car washes gone? Teach our youth to earn, not panhandle in order to receive money. Take pride and build confidence by doing something with one's hands and mind. Learn to create and deliver something of value for money. That is how capitalism works.
- It is not too late to reinstate the "**uptick rule**". It worked fine for 70 years and we have seen what has happened in the past 18 months since the SEC eliminated it. The uptick rule required short-sellers to enter orders only after a stock had traded higher on its last trade. It prevents short-sellers from ganging-up and driving down a stock's price.
- **What role should government play in a free market?** Does government intervention and support actually encourage too much risk taking in the private sector? If certain companies are not allowed to fail, what incentives do those managers have to make prudent decisions if they have a government safety net? Bond holders, shareholders, employees, and tax payers have suffered, yet managers still are not punished appropriately for their improper and careless actions.
- The Bush administration has kicked the can down the road to the Obama administration as to what to do with General Motors, Ford, and Chrysler. **Who really benefits from an auto bailout?** The politicians who receive votes from union members and donations from lobbyists (sponsored by both management and labor).
- **Would Americans buy an automobile from a company in bankruptcy?** Probably if there was a firm plan in place for the manufacturer to emerge from bankruptcy. The bigger questions are (1) why would anyone buy a car from a company owned by the government? and (2) when will Detroit build competitive cars that the American consumer will purchase?
- Think Bernard Madoff and Marc Dreier are the only **swindlers** out there? Tougher economic times can bring out more chisellers and drive some people to desperate measures. Be cautious with your money and decisions.
- Despite all the doom and gloom, do not underestimate the imagination and ingenuity of the American spirit. There are some very smart people developing and experimenting with ideas that will be useful and of value in our future. Let's hope that government regulation, bureaucracy, and incompetence does not block the way to a better tomorrow. **Have a Happy & Healthy 2009!**