

Observations

- Don't give up. **Equities still belong in diversified portfolios.** Long-term, an economy based in capitalism is dependent upon ownership, be it private or public, to provide innovation and growth. Ownership, while having risks, also offers rewards. More people immigrate to economies based in capitalism to realize their dreams than to any other economic system.
- Both **Congress and the President should re-think their handling of the economy** as financial markets are communicating that they do not believe these plans are going to work as promised. If government simply provided leadership and a level playing field (i.e. sensible regulation) instead of trying to solve all problems, the free hand of the market will work.
- Economic data tells us inflation is being held in check, yet **gasoline prices are up** approximately 20% this year and **retail grocery prices and healthcare costs have increased.** Oil prices remain in the \$38 a barrel range. Most consumers are sensing inflation for the necessities of life, hence the reduction in discretionary spending no matter what the price.

Facts & Figures of Importance

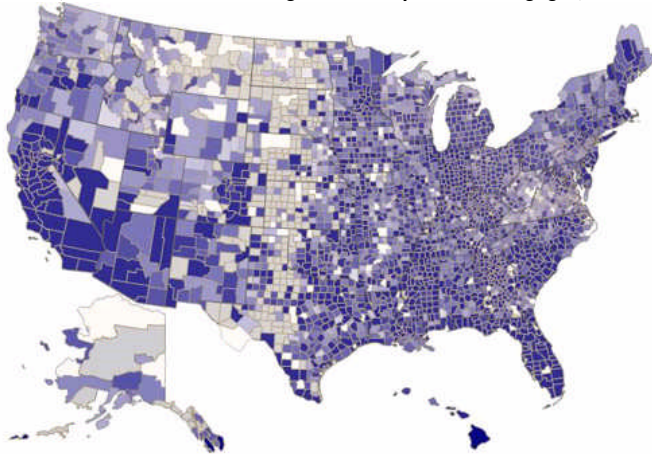
Economic

From the National Association of Realtors®

	Homes Sold	Change	Inventory	Months Supply
2006	6,478,000	----	3,450,000	6.5
2007	5,652,000	-12.8%	3,974,000	8.9
2008	4,912,000	-13.1%	3,676,210	10.4

From the Federal Reserve Bank

US by County – Mortgages over 90 days delinquent
(darker shades indicate higher rates of past due mortgages)

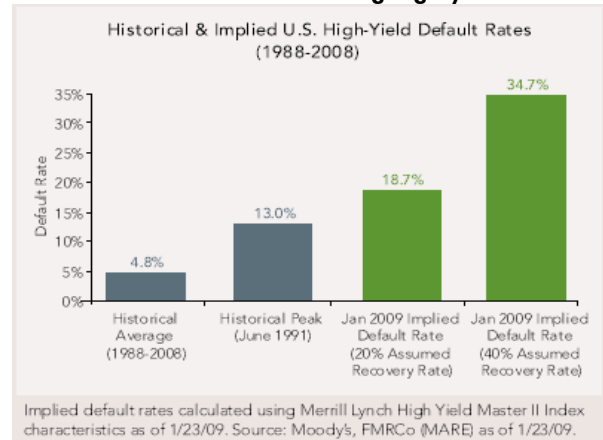


Financial

Treasury Yields

	Treasury Yields		Equity Markets	
	5 Year	10 Year	S&P 500	DJWilshire 5000
2005	4.35%	4.39%	1,248	12,518
2006	4.70%	4.71%	1,336	14,257
2007	3.45%	4.04%	1,468	14,819
2008	1.94%	2.96%	896	8,945
2/27/09	1.99%	3.02%	735	7,474
YTD Return			-17.98%	-16.45%

Look at the risk of chasing high yields!



Economic Outlook

- The combination of poor communication from the administration, congressional comedy, and media assaults are scaring the consumer and businesses who will continue to keep their wallets closed for the foreseeable future.
- The Federal Reserve should be given credit for their efforts addressing the economic recession. Until those responsible for fiscal policy get their act together, markets will remain adrift.
- The stimulus plan will be very slow to create jobs. Employment is the key to prevent the economy from sliding deeper into recession. Root for the smart people in the private sector.

Investment Outlook

- It is not a question of "if", but "when" equity markets recover and the next bull market makes a charge. Risk sensitive investors should keep equity allocations moderately below normal targets in the short to mid-term.
- Many are recommending corporate or muni bonds over treasuries due to yield spreads. The credit analysis better be thorough and cash flow strong because there are still no signs of economic prosperity on the near horizon. Tread carefully. The bubble in treasuries will burst one day, but for the short-term, government insured vehicles still offer the safest harbors.

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Insightful Thoughts of Others

As you know, the recent economic statistics have been dismal, with many economies, including ours, having fallen into recession. And behind those statistics, we must never forget, are millions of people struggling with lost jobs, lost homes, and lost confidence in their economic future.

--Fed Chairman Ben S. Bernanke

Averages need to be measured over 10 to 20 year periods, and in some cases, 50 to 100 years. Just because something is true over a short period of time does not mean it is true of a longer period. Myopia can be fatal in financial markets.

-- John Osterweis.

History doesn't repeat itself, but it rhymes.

-- Mark Twain



A Few More Things

- ❑ **The language is intentionally being manipulated to confuse the message.** The "R" in the TARP is for "relief". Call it spin, political double-speak, or use your favorite colloquialism. The message is still the same. How can tax "relief" be offered to someone who is not paying taxes? How will the "stimulus package" encourage us to spend, when we know it must be paid with future higher taxes? Let's be honest and just call all this government spending what it really is. It is spending for future votes and political contributions. The moral hazards being created by the government will further harm the economy.
- ❑ More TARP capital is being provided to financial institutions and car manufacturers, who by mismanaging their businesses, are for all intents and purposes about to fail or go bankrupt. Funds from the stimulus package are being given to people who took risks and failed. **When you supply funding or capital, is that not a "reward" for a behavior that you desire?** Is the message that if you take risk and fail, government will reward you by paying for your losses? And if you are successful, you will pay taxes (at an increasing rate); hence is that not a punishment for being successful? Where's the common sense?
- ❑ Politicians either do not understand or are intentionally misleading the public. **Markets cannot be manipulated for long time periods** as history shows price controls do not work. That is exactly why government action that is intended to support the housing market will fail. Too many homeowners who can no longer afford their homes are being turned into "zombie borrowers" struggling to pay monthly bills. If market forces were allowed to sort out the problems (with regulators who are not asleep at the wheel), investors could buy homes and rent them for less than what many troubled homeowners are paying in monthly mortgage and taxes. Lowering interest rates will only help so much. Studies show that those in default who refinance, generally default again within one year. Perish the thought of bankruptcy judges being allowed to reduce the principal mortgage balance. When home prices rise again, will borrowers be required to pay gains to lenders?
- ❑ **When will it be time to cash out?** When you believe the system will no longer function properly and is beyond repair. Three items are of concern for the immediate future, especially if you believe in the Constitution and rule of law on which this country was founded. First, nationalization of firms without a clear and timely exit plan. Think a government takeover of Citicorp or GM without a plan to break-up that firm and sell it off or turn the company over to debt holders and sell anything that remains to new investors. Second, legislation that does not respect the second amendment. Gun owners must be responsible and law makers should enforce penalties against those who own or use illegal firearms, but the founding fathers included the second amendment with good reason. Finally, if government aid is offered to and accepted by media outlets, it may be the signal to start to shift to a much more defensive portfolio. The Constitution guarantees freedom of the press. How can the press be an objective watchdog if it is being financed with government funds?
- ❑ Dogpile is an efficient search engine that utilizes Google, Yahoo, Microsoft, and others simultaneously. **By using www.dogpile.com, you can help them raise money for the ASPCA.** We're using it; please check it out.

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