



Investment Perspectives

February 2009

**"A pessimist sees the difficulty in every opportunity;
an optimist sees the opportunity in every difficulty."
-Winston Churchill**

Maintaining the proper *perspective* toward your investment assets during these uncertain economic times is one of the key factors to emerging relatively intact from this period. With the endless media coverage of the economy and the financial markets, many of us find ourselves confused and uncertain of our financial future. We would like to take this opportunity to articulate our thoughts on the economy, the markets, and on investing - both present and future. Hopefully, this will offer some positive insight as to how to best manage your way through this volatility.

First, maintaining a portfolio of *high quality* investments will serve you best during recessionary and recovery periods. Granted, it is more difficult to find stocks with steady earnings growth today than a year ago, but opportunities do exist. These companies will weather this correction far better than their lower quality counterparts. The same holds true for higher quality government and corporate bonds.

Second, we believe that stock *dividends* are an integral part of long term growth. Historically, dividends have contributed up to 35% of a stock's total return. The stocks in our portfolio currently pay an average dividend yield of over 4%, compared to the current yield range on high quality bonds of .25% - 3.5%. Certainly, stocks are subject to more price volatility than most bonds, but if your horizon is long term, the upside potential for high quality stocks is compelling. The combination of the 4+% yield and the opportunity for price appreciation may be worth the wait for the inevitable market recovery. A portfolio of quality, dividend paying stocks will outperform bonds over the long haul.

Another factor to long term success is the ability to exercise discipline and patience. We are expecting another 9-12 months of market volatility, however, some economists believe this recession could continue 12-18 months or even longer. One positive note: the stock market historically begins to recover prior to the end of the recession. If you can limit your short term expectations, wait out the markets, and in the meantime enjoy a 4+% dividend yield, we believe that you will be well positioned for the eventual recovery.

While we anticipate more negative news ahead, we feel strongly that a good deal of future uncertainty is priced into the current markets. Although this has been an extremely difficult period to navigate, we are beginning to see some glimmers of hope. The world governments are responding to the economic crisis with an increasing amount of financial stimulus. Once the credit markets begin to open up, economies will stabilize, and once again permit growth.

In spite of the uncertain markets, owning high quality investments is the most prudent way to position yourself for the future. We are here to help examine your individual needs, assist you in the setting of your course, and remind you to keep a positive, forward looking perspective!

Ten Positive Perspectives:

1. Oil prices are down significantly, putting dollars in our pockets as we see our home heating and gasoline expenses decrease.
2. We are beginning to see the prices of groceries and other goods decline, partly due to lower transportation costs.
3. Many of us have had a "reality check" forced upon our spending habits, and have taken steps to reduce unnecessary spending.
4. Americans are saving more! Short term savings are up 15% and retirement savings have increased by 35% over a year ago.
5. Americans are paying off more debt—on average 6% more.
6. Stock valuations are at historically low levels and offer attractive buying opportunities for the long term investor.
7. Stock dividends are up! This is a nice reward to enjoy during the wait for the inevitable upswing.
8. We have a renewed appreciation for the virtues of honesty, prudence, risk management, transparency, and oversight. Americans are making it clear that a return to these sound principles is a necessary step toward healing the economy.
9. Our political and financial leaders around the world are starting to understand, and reap the collective benefits of, working collaboratively.
10. No matter how you feel about the stimulus package, most of us will eventually appreciate the proposed infrastructure upgrades: transit, airports, bridges, and roads.

Is There Nothing Positive to Talk About?

by Dennis Ott

We hear many comparisons of today's global recession to that of the depression era 1930's. Unfortunately, the "talking heads" and politicians seem to be focused entirely on the negative aspects of the situation. Back then, our confidence was inspired by President Franklin D. Roosevelt's famous quote "We have nothing to fear but fear itself." In contrast, today we are influenced by the self-proclaimed finance expert Suze Orman, who on a recent Oprah Winfrey show, admonished listeners to discontinue dining out in restaurants, and to stay away from stores. While personal budgetary controls are important, if such boycotting becomes widespread, this advice could prolong and deepen an already deteriorating situation.

Today most experts predict there will be little improvement for at least 6 to 9 months; however, a year ago, many of these same experts believed that 2008 would be a year of growth. Clearly, economists are often wrong. We at Palisade have all weathered a number of difficult markets. Generally, the markets will not begin their upwards cycle until the focus becomes more positive, and confidence begins to improve. In the interim, we persevere in our search for quality and value as we continue to serve as stewards of our clients' assets.

There are some encouraging signs:

With the S&P 500 Index returning a negative 37% last year and down about 12% so far this year, we believe a great deal of the lower profit outlook is currently factored in; any positive news could help security prices, possibly in a dramatic fashion.

The S&P 500 and the Dow Jones 30 Industrial indexes currently boast an average dividend yield of about 3.5% compared to the ten year Treasury of 2.2%. With these yields, equities can be a viable option when looking to improve cash flow.

Many consumers and businesses have delayed purchase and growth plans, but there is a limit to how long these needs can be postponed. Eventually this pent-up demand will be exercised, contributing to a better outlook.

Finally, it appears that the federal government has "both feet" on the accelerator in an attempt to bring about an improved outlook.

Financial Terrorism?

by Jim King

A short time ago, I was in New York City and spent most of my time in lower Manhattan. I stayed about three blocks from the former World Trade Center. I visited and reflected on the horror of Ground Zero, joining with the rest of America in my outrage toward those responsible.

I began to see a parallel between the destruction I was seeing, and the much less visible damage that has been done to our world financial system. Both were fueled by greed and power. But unlike the World Trade Center, few seem angry and outraged by the financial "terrorism" that has shattered our economic and banking systems.

The players: Major commercial banks, investment banks, Freddie Mac and Fannie Mae, major insurance companies, mortgage companies, hedge fund managers, the SEC, lobbyists, the Federal Reserve, Congress, and the President – in addition to the directors, officers and enablers of these institutions. The heads of these institutions were known as the "Emperors of the Universe", representing the best and brightest in world finance. These well-educated, experienced individuals should have understood the ramifications of their actions, but they apparently were driven entirely by greed. Through lobbying and contributions, they effectively prevented Congress from passing regulation that attempted to increase supervision or control risk.

I am astounded that none of these parties are being held responsible for their roles in either the destruction of the world financial banking system, or the devastation to the population who will ultimately pay for their greed. I believe the American people should demand the prosecution of those "Emperors" responsible for endangering the democratic system of government and our way of life – just as we would charge anyone who is believed to have threatened or damaged our democracy and society.

As a final observation, it seems as though our current leaders are attempting to use fear to bolster their agenda. Their mantra has been "Worst since the Great Depression...". We are not even close to 1930's era conditions. While the average unemployment rate since 1970 has been 5.5%, we are currently at an unemployment rate of 7.6% - a far cry from its peak of 37% in 1933. While this mantra may serve the administration well in the short term – i.e. getting expensive rescue packages pushed through Congress– it will be hope, not fear that will instill the confidence needed to begin to heal and, once again, grow our economy.