Stamper Capital & Investments, Inc.

"Focusing on Upside Potential with Downside Protection Since 1995."

January 2009 Market Commentary

Stamper Capital and its clients did well in what was a miserable year for most. On both a risk-adjusted basis and an absolute return basis (see below), our clients did very well in 2008 and in this decade (so far). We also did very well on a forecasting basis, over both the short term and the long term. Our tag line that we have repeated for years and years, "Safety is the Watch Word for This Decade," is proving itself to be correct.

Also, we are very proud that **our long-standing forecast for a "Right-Tilted W" as the shape of the financial markets and the economy from 2000 and continuing that we made in the 2nd Quarter 2002 THE WEALTH PRESERVER article, "'W'hat the Economy Might Look Like," has been confirmed!** In that forecast (and subsequent annual updates) we detailed that we thought that the downturn from 2000 would probably take the shape of a "W" that was tilted with the right side lower than the left side, a sideways right-titled 'W', if you will. The rebound from October 2002 would be the leg up to the middle point of the 'W', with the next leg to be downward, and because it is to be right-tilted, this next downward leg would be a much bigger drop than the first down leg (from 2000 down to 2002). While the right downward leg from the middle of the 'W' has yet to go lower than the 2002/2003 bottom in most stock indices (valued in U.S. dollars), it certainly has for the economy and for junk taxable and high yield municipal bonds and other risky asset classes. If valued in a basket of commodities or a basket of currencies, the leg has already gone lower for essentially all equity indices & pretty much everything else you can think of. Thus, it has happened - our forecast is being fulfilled and is continuing on track. Unfortunately, we do not believe this middle downward leg of the very large 'W' structure is anywhere near finished. When this down leg is complete, we will have a long lasting recovery, but we believe that recovery will start years from now and from much lower levels.

Corresponding to all that, also in last year's forecast (January 24, 2008) **we correctly predicted "we believe we are in recession already and that this recession is likely to last throughout 2008."** Almost year later, NBER (National Bureau of Economic Research) on December 1st, 2008 declared the recession started in December of 2007. Almost no one else was calling it a "recession" when we were.

And, here is what we said in last year's annual forecast about interest rates and bonds in general: "In line with our forecast for a dramatically weakening economy and lower prices for riskier assets, we are forecasting lower high quality interest rates (similar to what happened to Japan in their recessionary climate that started in 1990 and is still continuing) but rising interest rates for lower quality issuers and borrowers. Of course,

correspondingly, we forecast the FED will continue to follow short term U.S. T-bill rates downward as they have done in other cycles and have already started to do in the current cycle." Pretty much right on.

Our **Deflation Watch Weblog** (which can be found here: http://www.risk-adjusted.com/Weblogs.html) and other Weblogs were also correct about commodity prices, most of which have fallen precipitously.

So, it was quite a year for Stamper Capital and its clients.

What happened in 2008 - The Numbers?

Dow Jones Industrial Average:	Down	31.9% (total returns)
S&P 500:	Down	38.5%
NASDAQ:	Down	40.5%
Russell 2000:	Down	33.8%
Merrill Lynch BB-B Corporate Bond Index	Down	23.3%
CRB Commodities Index	Down	35.9%
Copper	Down	53.5%
Silver	Down	13.9%
Gold	Up	11.0%
Oil	Down	24.6%

U.S. Treasury Rates	12/31/07	12/31/08	Change
3 month bill	3.24	0.08	down 316 basis points
2 year note	3.05	0.76	down 229 basis points
5 year note	3.44	1.55	down 189 basis points
10 year note	4.02	2.21	down 181 basis points
30 year note	4.45	2.68	down 177 basis points

Importantly, only interest rates of absolutely the highest quality (like U.S. treasuries) dropped. Even yields of tax-free bonds guaranteed by GNMA, which, unlike Freddie Mac and Fannie Mae, truly does have a full faith and credit backing from the U.S. government, dropped substantially at the intermediate and longer end of the yield curve.

OK, those are the raw numbers but what really happened in 2008?

Liquidity, Liquidity, Liquidity. Basically, liquidity vanished and leveraged positions (assets levered up with debt) dropped enough to get margin calls which dropped their price even more as they had to be sold on demand. This was essentially the situation across the board in all asset classes. Essentially, only treasury securities (and gold) rose in price - pretty much everything else, stocks, mid-quality bonds, high quality municipal bonds, junk bonds, real estate, REIT's, and even most commodities dropped in price. Of course, this trend goes along well with our standing forecast for deflation (please see our

Deflation Watch Weblog and our **Anatomy of a Credit Contraction & Deflationary Downturn Weblog**) (which can be found here: http://www.risk-adjusted.com/Weblogs.html) which, unfortunately, is also on track.

Our Performance for 2008 is in the table below - You decide if the returns were superior for the risk that was taken. The Fund's average credit quality over the last several years has been AA or higher and its duration (a measure of interest rate risk) has been less than 3.5 years (of course there are numerous other risks for all investments that we detail on this site):

Lipper Rankings

General Municipal Bond Funds
Annual Returns, Period ending December 31, 2008

PERIOD	Stamper Capital Sub-advised Fund Percentile Rank	NUMBER OF COMPETITORS	CATEGORY AVG. TOTAL RETURN	Stamper Capital Managed Fund TOTAL RETURNS	Stamper Fund PRE-TAX EQUIVALENT TOTAL RETURNS	Stamper Capital Managed Fund Share Class
1-YEAR	7	228	-9.09%	-0.13%	-0.13%	I
3-YEARS	6	208	-1.44%	2.46%	3.78%	I
5-YEARS	4	199	0.53%	2.70%	4.15%	I
10-YEARS	19	146	2.44%	3.45%	5.31%	I

The pre-tax equivalents are based on the highest federal tax bracket of 35%.
Please see Disclaimer Section Below.

Equity Index* Performance vs. Stamper Managed Fund

Annual Returns, Period ending December 31, 2008

PERIOD	S&P 500 (SP500)	Russell 2000 Index (Russell 2000)	Dow Jones Industrial Index (DJIA)	Stamper Fund PRE-TAX EQUIVALENT TOTAL RETURNS	Stamper Capital Managed Fund Share Class
1-YEAR	-37.00%	-33.79%	-33.84%	-0.13%	I
3-YEAR	-8.36%	-8.29%	-6.44%	3.78%	I
5-YEAR	-2.19%	-0.93%	-344%	4.15%	I
10-YEAR	-1.38%	3.02%	-0.45%	5.31%	I

* Note: Indices have neither management fees nor trading costs deducted from their returns.
Look at the "pre-tax equivalent returns" to compare to equities, real estate, and taxable bonds.
The pre-tax equivalents are based on the highest federal tax bracket of 35%.
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Separately Managed Accounts Candidates, please see information under our **Services** page, here: http://www.risk-adjusted.com/Services.html .

Merits of Active Management: One thing those tables (and price line graphs even more so) make evident is that ACTIVE MANAGEMENT was very appropriate, even over long

periods of time. Also, here are the total returns of some Lipper Municipal Bond index categories for 2008:

High Yield Municipal Bond Funds, average:	-25.11%
General Municipal Debt Funds, average:	- 9.09%

At Stamper Capital, we essentially avoided all high yield municipal bonds and kept our duration much shorter than the average for the General Municipal Debt Fund category. We were able to highlight the what we thought was the top in the low quality municipal bond market in an interview published in **"Time to take profits in high-yield muni funds," REUTERS, January 10, 2007** (which is under our SCI In the News page, found here: http://www.risk-adjusted.com/ExternalArticles.html) in addition to our forecasts and other articles.

What about going forward? - Well, I guess one would say the easy money has been made. Stocks and risky assets, to us, were significantly over-valued and now they have dropped precipitously. However, ultimately, we believe the trend in risky assets is still down even after their large drops. Thus, much of our forecast for 2009 is similar to last years'.

Last year, we looked at the **drops in equities from the 2000 top to the 2002 bottoms** focusing on the percent rise of retracements of intermediate drops during the overall downtrends. Here is what we found:

	First Retracement	Second Retracement	Third Retracement	Total Drop
Dow Jones Industrial	76%	76%	50%	38%
S&P 500	50%	62%	38%	49%
NASDAQ	50%	24%	62%	78%

Thus, even though there were huge retracements of large drops, at the end of the period (in late 2002), the DOW bottomed down 38%, the S&P bottomed down 49% and the NASDAQ bottomed down a whopping 78%. In that light we still expect large counter-trend retracement rallies similar to those experienced during the drop from the 2000 top. However, given the poorer fundamentals at this time than even at the 2000 top, we are forecasting smaller retracements - probably more like 24% as opposed to 50% or 76%. Still, it will be tough to not think the downturn is over when it is simply a large counter-trend rally.

Of course, if the stock market is dropping precipitously, real estate will be falling hard and low quality bonds will be seeing their interest rates rise (prices drop) rather dramatically. We think the recession will last throughout 2009. We will forecast 2010 next January.

What about all the government bailouts? Well, they certainly are a wild card. The bailouts and other actions by government bodies will likely contribute to continued high

levels of volatility. We do note that what we have noticed is that, so far, when a bailout is announced markets recover and rally in the short run, but have resumed their downward trends in the longer run. However, that is in general; some specific assets have recovered very nicely due to the bailouts so they are definitely something to forecast and consider.

Still, we believe the over-valuation of risky assets in general in conjunction with the high levels of debt that are financing them, will result in a continuation of the fall in their prices, although at not as steep a drop as from October 2007 to November 2008 but likely continuing over a longer period of time to put in lower highs and lower lows. Our original forecasts from 2001 still stand.

We would also like to highlight that the credit buildup and inflation over the past decades has created what, we think most will agree in hindsight, several years from now, are overproduction & gluts of certain types of assets. Specifically, we are talking about automobiles and housing, among others. We are already seeing the glut of autos and housing being reduced by dramatically lowering production; however, we want to emphasize that without another credit bubble, which we think is highly unlikely for decades to come, we will come no where near production and sales levels that we saw just a couple of years ago. It is for this reason - that the production and economies that were achieved were basically false, built on unsustainable borrowing levels - that we think the economy and prices of risky assets will continue to fall for some time.

We are just now beginning to see the ripple effect from Wall Street to Main Street. Unfortunately, this situation will likely ricochet back to the financial markets in somewhat of a self-reinforcing cycle - similar to the self-reinforcing up cycle from the early 1980's that just ended, but in reverse. Generally, down cycles take longer because prices are more sticky downwards than upwards due to contracts which consider inflation but not deflation - basically, everything is geared for inflation - but inflation that won't be happening, we will be in deflation. As alluded to above and several times over the years with respect to our forecast for a Right-tilted W economy and financial markets that started in 2000, we accordingly believe we have already been through 9 years of correction and bear market. If the economy and financial prices are evaluated in a basket of currencies or a basket of commodities the 2000 top would stick out very prominently. Still, even with 9 years under out belts, we believe we have many more years of correction and bear market to go.

What about the $10 trillion or so in new promises that have been made over the past year? We do believe they along with the bailouts have had an effect - without them, everything would have dropped more in price. However, that would mean that we would be getting all this resolved that much quicker. Thus, we believe this effort is creating a more "orderly liquidation," if you will. I guess the other associated question is "Won't it cause inflation?" Yes, we believe it will ultimately, but for now, the credit/debt that is imploding is even bigger than these bailouts and new government promises. We expect this situation to continue for some time; however, eventually it will lead to inflation and likely a very strong one at that. Unfortunately, we believe that when the general public

finally gets adjusted for continuing deflation, and this will take a period of time, the whole situation will switch to a strong inflation - thus, it will likely be a huge "whipsaw" for most - most unfortunate, but that is what we are expecting over a longer period of time. Accordingly, we are forecasting a continued drop in prices of commodities for some time and then a long term bottom as deflation switches to inflation.

Over the shorter run, for the year, 2009, we believe the rebound in stocks from the late 2008 lows has just ended and that we will very quickly head down to and take out those levels on the downside. It will likely be a very steep drop over a short period of time & it will get a huge amount of media attention. Then, we expect a very volatile, choppy rally over five or so months. The key will be that while the rally is large, it is will not have near the breadth as the decline from late 2007 to late 2008 - thus, not as many assets will rally as had dropped & it will only be a partial retracement as we alluded to above. If that is what happens and that is what we expect, then, we forecast a down trend from that intermediate rebound high, similar to the 2008 drop but not quite as steep, will resume for the rest of 2009 and likely another year or two thereafter. We are expecting that we won't know where the bottom is going to be until we are actually there, but we should know.

In line with our forecast for a dramatically weakening economy and lower prices for riskier assets, we are forecasting short term, very high quality interest rates (similar to what happened to Japan in their recessionary climate that started in 1990 and is still continuing) will stay low but continued rising interest rates for lower quality issuers and borrowers. The wild card is interest rates of high quality, intermediate and longer term bonds. We think the risk is too much to own those types of positions. We could foresee a situation where a top performer in those and other categories could have a negative total return but clients would still be ahead as the price level for most assets would have dropped. It is likely for this reason that yields of T-bills are so low right now.

For specific investments, we will continue to focus on our upside potential and downside protection analysis, that has worked well for us since 1990 and we believe we will continue to post top risk-adjusted returns in our specific category and against most other asset categories.

In conclusion, we believe the prices of riskier assets, stocks, low quality bonds, and real estate will continue to drop substantially but likely with some volatile rallies in between. Please see our **weblogs and annual forecasts** (at http://www.risk-adjusted.com/AnalysisMarketOpinion.html) for more detailed information and to see how well we have been forecasting over the years - our previous forecasts still stand.

Thank you,
Stamper Capital & Investments, Inc.

As previously, for us "safety" is the watchword for this decade.

(Posted January 16, 2009)

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Stamper Capital & Investments, Inc. has been the sub-adviser to this Fund since October 1995 and B. Clark Stamper, our President, has been its Portfolio Manager since June 1990.

Past performance does not guarantee future results, and current performance may be higher or lower than the performance data quoted. Investment return and principal value of an investment will fluctuate so that investor's shares, when redeemed, may be worth more or less than their original cost.

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