

"Our Clients' Past Successes are Not Necessarily Indicative of Future Successes."

Stamper Capital & Investments, Inc.

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

January 2010 Market Commentary

Well, Stamper Capital & Investments, Inc.'s & its clients certainly hit the ball out of the park for this last decade! Back in 2001, to the end of our forecast, we appended the statement "**For us, 'safety' is the watchword for this decade**" and we repeated it several times annually, thereafter. I think we all can say, with perfect 20/20 hindsight, that "**safety was the watchword for that decade.**"

Importantly, we believe we **achieved our goal of maximizing pre-tax equivalent total return per amount of risk taken/experienced over the decade:**

Equity Index* Performance vs. Stamper Managed Fund

Annual Returns, Period ending December 31, 2009

PERIOD	Barclays Municipal Bond Index (BCMBI) TOTAL RETURN	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	12.91%	26.46%	27.17%	18.82%	11.06%	I
3-YEAR	4.41%	-5.63%	-6.07%	-5.77%	5.38%	I
5-YEAR	4.32%	0.42%	0.51%	-0.67%	5.51%	I
10-YEAR	5.75%	-0.95%	3.51%	-0.97%	6.74%	I

* Note: Indices have neither management fees nor trading costs deducted from their returns. The pre-tax equivalents are based on the highest federal tax bracket of 35%.

Also, remember, that these performances are after the very large equity rally of 2009; however, the riskier asset indices returns are still less, even negative, and they definitely took/experienced more risk. **So, our clients actually achieved higher returns while experiencing less risk!!!** Something we are very proud to have accomplished for our clients.

Also, our long-standing forecast for a "**Right-Tilted W**" as the shape of the financial markets and the economy from the year 2000 and continuing that we made in the 2nd Quarter 2002 THE WEALTH PRESERVER article, "'W'hat the Economy Might Look Like," was confirmed (exists) with the various bottoms from October 2008 to March 2009. In that original 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.

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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 - The Dow Jones Industrials did go lower in 2008 by 10%!), it certainly has for the economy and for junk taxable and high yield municipal bonds and other risky asset classes like real estate. The most obvious evidence that 2008/early 2009 was lower than 2002/2003 were the massive government bailouts - we did not have those in 2002/2003. Importantly, if valued in a basket of commodities or a basket of currencies (rather than solely the U.S. Dollar), the leg has already gone lower for essentially all equity indices & pretty much everything else you can think of. Thus, it has now already happened - our "Right Tilted 'W' Forecast" from 2001 was fulfilled as of late 2008/early 2009. **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. See our more specific forecasts for 2010, below.

Please review our **Annual Market Comments** (at: <http://www.risk-adjusted.com/AnnualForecasts.html>) since January 2000 to see exactly what we said in making those prescient forecasts for the past decade.

Our Forecast For 2009 & Results - In January 2009, we said:

"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 <u>Retracement</u>	Second <u>Retracement</u>	Third <u>Retracement</u>	Total <u>Drop</u>
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 [for 2009] 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."

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Right now (January 16, 2009) the retracement on the Dow Jones Industrial Average of its drop from the 2007 top to the March 2009 bottom is about 55%.

Note, we also predicted the resumption of that original downtrend from the 2007 top, taking out the 2008 bottoms in early 2009 - which happened when it went down to the March 2009 lows, then "a very volatile, choppy rally over five months or so" - which has now happened, although it has lasted about nine months so far; in January 2009 we said:

"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 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."

So, we correctly forecasted the March 2009 bottom and a large rebound.

On a special **October 22, 2009 Market Update Commentary**, (at: <http://www.risk-adjusted.com/AnnualForecasts.html>) we posted, that "to us, that [partial retracement rebound] forecast has now been fulfilled. So, we believe that is essentially where we are right now (within a couple of weeks and a percent or so) - at the end of the counter-trend rebound top."

Since that time (October 22, 2009), the momentum of the equity indices has waned; however, most indices have continued to drift upwards, albeit on less volume, but only by between 2% and 5% depending upon the indices. However, importantly, **the municipal bond market topped around October 5, 2009** and that top is still holding and the trend is still downwards. It maybe that the downtrend in the municipal bond market since its October 5, 2009 top is the precursor to the downturn in essentially the rest of the risky and longer duration equity, bond, and commodity markets. Note, also, that the KBW Bank Index ("BKX") of 24 of the largest banks peaked October 14, 2009; in 2007 the BKX peaked 2-20-07 or about eight months before the Dow Jones Industrials peaked on 10-09-07 (before their 55% drop). It most likely will be a leader in this cycle also. Another one that maybe a leader is the Moody's Baa Corporate Bond Yield index which bottomed October 1, 2009 at a yield of 6.11% - remember a yield low is a "price high" and we think it highly likely that one will stick.

Thus, although we were a little bit early (as we would rather be than late, especially in this downturn as we believe liquidity for all but the highest quality assets could vanish), we believe all our previous forecasts are still intact. Likely market tops before the next very large drops are/were:

Dow Jones Industrials	1-14-2010	10,723
Russell 2000	1-14-2010	646.4
S&P 600 Small Cap	1-14-2010	342.6

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Dow Jones Transports	1-11-2010	4,262
Sox Semi Conductor	1-8-2010	367.7
NASDAQ	1-8-2010	2,317
Bloomberg REIT Index	12-28-2009	151.7
Dow Jones Utilities	12-14-2009	406.7
KBW Bank Index	10-14-2009	49.20, lower high 1-14-10 at 47.71
CRB Commodity Index	1-6-2010	294
Oil	1-6-2010	83.18
Gold	12-3-2009	1,218
Silver	12-2-2009	19.3
U.S. Long Bond Future	11-30-2009	122-23
Municipal Bond Market and longer muni funds	10-5-2009	N.A.V.'s of almost all intermediate
Moody's Baa Corporate	10-1-2009	6.11% yield low, price high

U.S. Dollar Future	11-25-2009	- LOW, U.S. Dollar up, everything else down, just like 2008
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Continuing with our original January 2009 Market Forecast, we said:

"If that is what happens and that is what we expect [and it did happen!], then, we forecast a down trend from that intermediate rebound high [approximately now, January 2010], similar to the 2008 drop..."

We believe we are at (or just past) that top now and we are still forecasting a huge drop from that top similar to the drops of 2008, likely worse in terms of speed and in terms of size, unfortunately. Essentially all asset classes will be negatively impacted but, similarly to 2008's huge drop, especially prices of riskier assets such as stocks, commodities, real estate, lower quality bonds, and even higher quality intermediate and longer duration bonds. **Continuing with our forecast for the "Right Tilted W" that started in 2000,** we believe prices will drop clearly below the 2002/2003 levels in all these asset classes. So hold on to your hats (and money) for 2010.

Please see our original **January 2009 Market Comment** (at: <http://www.risk-adjusted.com/AnnualForecasts.html>) for more information.

Why the big drop? We have spent a huge amount of ink over the years in our Annual Forecasts and Weblogs explaining the build up of the bubbles and why we expect them to pop, please see them for detail. - In "a nut shell," there are a couple of parts to the answer. First) valuation levels are still far too high. We are talking Price/Earnings ratio's, ratios of rents to asset prices for real estate and lower quality bonds, etc. that we

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have documented many times in the past. Another part of the answer) and it is related, is the still "off the charts" levels of debts and government promises (pensions, Medicare, Social Security, etc.) and, that in the cycles on the way up since say 1982, even in the troughs, you still had credit expanding or at least not contracting; however, now we are in a Credit/Debt Contraction. In fact, even in the large stock and commodity rebound of 2009, credit/debt was still contracting! - This is a key "tip off" of "what is different." When the cycle turns down again (like it is starting to do now), with credit contracting even during the trough, we think it will be a doozy of a downturn, unfortunately.

It was the Credit/Debt Expansion that allowed (/pushed) valuation levels to get off the charts. It is the Credit/Debt Contraction that is going to first, bring valuation levels down to "fair value," and then, down below fair value, as markets most often overshoot either too high or too low. Think of it this way, say you have \$100,000 saved up and you want to purchase a house and financing is available at \$900,000 so you can pay up to \$1,000,000. But now, financing is only available for that purchase up to \$300,000 - in that case you can only pay \$400,000. By the way, that was the old "rule of thumb" for purchasing real estate 25% equity or more down payments. Based on the old rules of thumb real estate is still grossly overvalued. (Again, we've gone through many of these over-valuation examples in our **Weblogs and Annual Forecasts**.) (at: <http://www.risk-adjusted.com/AnnualForecasts.html>)

In our previous forecasts we talked of the 2008 debacle being on Wall Street and of it rippling to Main Street - we also implied rippling to "Municipal Street." The effects of the Credit/Debt Contraction have been rippling, especially to municipalities who have seen their tax revenue slashed: income tax revenues, sales tax revenues, property tax revenues, gas tax revenues, etc. These effects have only just begun to ripple. Similarly and related to Credit Expansions and Credit Contractions, these effects are self-reinforcing. First credit contracts and we have some defaults and asset prices fall; then, the fat is cut and some salaries are reduced; then people tighten their belts and spend less and save more. So now you have incomes dropping and retail sales dropping. So, municipalities are receiving less property tax, less sales tax and less income tax, etc. Now, they have to cut fat and reduce salaries. And it continues and self-reinforces until all the waste and excessiveness is out of the system. If debt levels are not excessive, it isn't that much of a painful process; however, if debt levels are "off the charts" as they've been since the late 1990's, then you are going to have a much longer term problem (like Japan still deleveraging 20 years after its 1989 real estate/debt Super Top). Unfortunately, we believe this cycle is likely to wipe out the waste and excessiveness all the way back to the early 1980's (or maybe even earlier), the beginning of the huge Credit/Debt Expansion that has now ended; We believe we are now in a huge Credit/Debt Contraction..

Deflation and Investment Performance: We also believe the current diffuse deflation will morph into an obvious overall deflation (with the value of U.S. dollars going up, and prices of pretty much everything else going down resulting in massive credit/debt defaults, many of which have already started). Accordingly, because prices of pretty much everything will be dropping, we believe even a negative total return of say 5% will

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likely be a home run compared to stocks dropping say 50% or more and real estate dropping similarly, along with the costs of normal goods and services. Importantly, a drop in the price level will be a tax-free gain, for those who don't lose as much as the averages & prices drop.

We believe, in these tumultuous times, it is important to keep the perspective that even if you lose a bit, you are still ahead when everything else drops more, similarly to 2008.

As previously, 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. Thus, we believe that right now, for all but the highest quality assets, the upside potential is very low and the downside possibility is exceptionally high.

In conclusion, we believe the prices of riskier assets, stocks, low quality bonds, and real estate and commodities are at peaks Now and will resume their down trends that began from earlier market tops (2000, 2007, and now). Please see our **Weblogs and Annual Forecasts** (at: <http://www.risk-adjusted.com/AnnualForecasts.html>) for more detailed information and to see how well we have been forecasting over the years - our previous forecasts still stand.

**Thank you for your patronage,
Stamper Capital & Investments, Inc.**

**Since 2001, "Safety" was our watchword for the 2000-2009 decade.
Unfortunately, "Safety" is still our watchword until we get to the final bottom,
which we believe is still much lower.**

(Posted January 16, 2010)

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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.

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Returns - Figures quoted are total returns calculated for the share class and time periods shown. Performance includes the reinvestment of income dividends and capital gains distributions. Performance does not reflect the deduction of taxes that a shareholder would pay on a fund distribution or the redemption of fund shares. Please go to Morningstar's and/or Lipper's websites for more information.

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