



LOVELESS

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► The State of the Economy- Which Way are We Heading?.....1

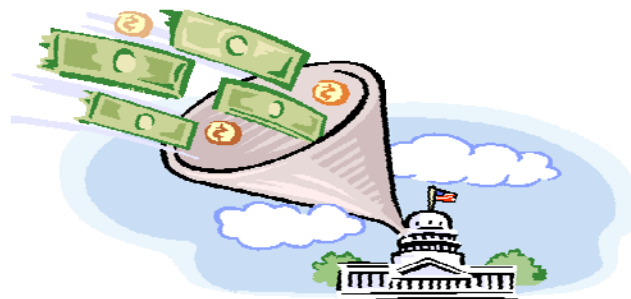
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February, 2009

Letter from *your Advisor*

“The ultimate result of shielding men from the effects of folly is to fill the world with fools.”

-British author and economist Herbert Spencer (1820-1903)



ECONOMY BY NUMBERS		
Consumers Confidence January, Conf. Bd	37.7	↓
Existing Home Sales, December Y/Y NAR	-3.5%	
Mortgage Rates January, bankrate.com	5.2%	↓
Unemployment Rate December, bls.gov	7.2%	↑
Leading Economic Indicators Index, December, Conf. Bd	+0.3%	↑

The State of the Economy – which way are we heading?

Q. How long, and what will it take, before the economy stabilizes?

A. How long: If we measure economic stability by GDP growth (Gross Domestic Product) we should see positive growth by the end of this year and as soon as the 2nd Quarter. At some point (we believe soon) investors will start looking forward to economic recovery rather than concentrating on last months data. However, typically job growth does not turn around until we are well into a recovery so we may see the unemployment numbers increase through the end of the year. Unemployment, economy-wide, is a lagging indicator. Companies lay-off workers last going into a slowdown and they wait until they are sure of recovery before adding workers.

What will it take: a decrease in uncertainty. A high level of uncertainty freezes the decision making process of market participants. Having come through the bailout of October 2008, change in government in January 2009 and now hammering out the latest 'government rescue effort' investors may finally get a relatively static environment in which to make decisions.

Private enterprise is not in need of "stimulus" – a healthy private economy needs 1) to have the belief they will not have the rewards of their efforts taken away (private property rights are intact) and 2) the system is relatively fair (rule of law is functioning). The level of government involvement in picking economic winners and losers is inversely related to a healthy economy. In a nutshell, market participants wondering whether the auto industry and the banks will be nationalized leads to wondering: who's next? Americans overwhelmingly favor retaining a private economy and we believe that will become clear – reducing uncertainty.



(continued)

Q. What are the signs we should be looking for?

A. If you just look at one- look at Index of Leading Economic Indicators. Available at www.conference-board.org. After dropping steeply for 5 months ending in November, in December it rose by .3%. We also track market volatility and interest rate differences between corporate borrowers and the US Treasury as indicators of investor sentiment. Others we pay attention to are building permits, machine tool orders, shipping rates and levels, electrical production and some commodity prices. Some are encouraging at this point and some are not. Simple but significant: the economic data is usually compared to a year ago period so the "comps" will look better just by virtue of comparing to smaller numbers. For example, going forward we will be comparing later 2009 car sales, home sales, retail sales to the low numbers of later 2008 and - some, if not all, will be up!

Q. What are implications for your portfolio?

A. Busts follow booms and booms follow busts. That's how markets work. By our measure we just went through, or are going through, a bust. Not the time to sell. The single biggest mistake one can make is to follow emotion and let fear take over, selling out at the bottom. We review your portfolios continuously and from time to time will make recommendations based on diversification requirements and asset class allocations.

Q. Are we still in a bear market, and how do we know when a bear market ends and a bull market begins?

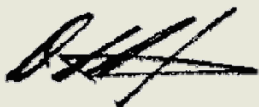
A. Bear markets are defined as down markets and bull markets as up markets. We can only mark tops and bottoms in the market looking backwards as unfortunately, no one rings a bell at the bottom of a market and no one rings a bell at the top of a market. If history is a guide the bear market ending and the bull market beginning is far ahead of the economy turning up. Let that sink in – big implications. On average 8 months before the economy turns up.

Tax Notes-

- **Many institutions are taking advantage of the later deadline this year (Feb 15th) for mailing out tax information to account holders.**
- **If you are over 70 ½, your required minimum distribution on IRAs has been suspended for tax year 2009.**
- **The 0% capital gains tax rate for those in the 10% and 15% brackets continues in 2009. Taxable income must be below 67,900 (joint) or 33,950 (single). Barring any government change the highest capital gain tax rate and qualified dividend tax rate for 2009 is 15%.**
- **IRA contribution limit for 2009 is \$5,000 with an additional \$1,000 over age 50 catch-up limit.**

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