

April 2009

TALF, Junk, and the Dollar

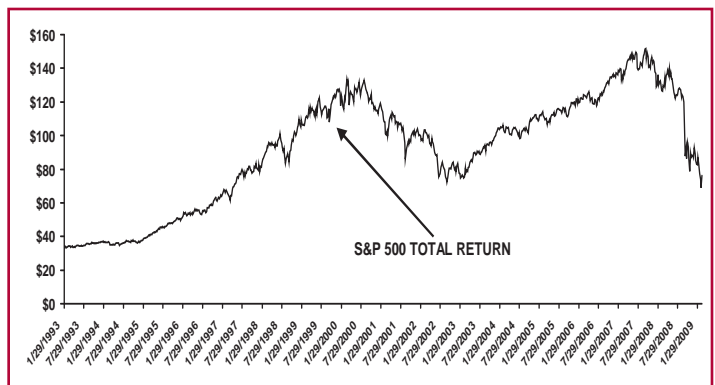
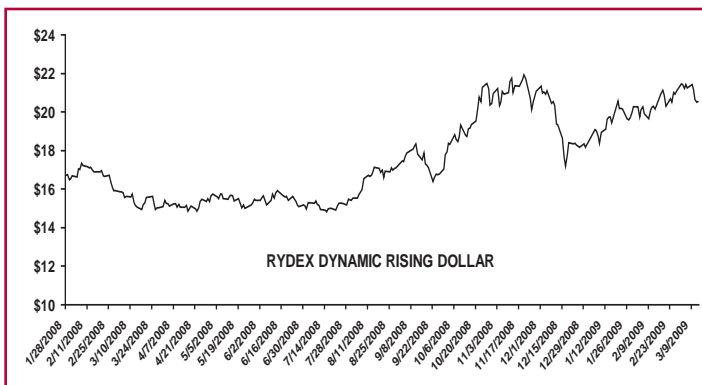
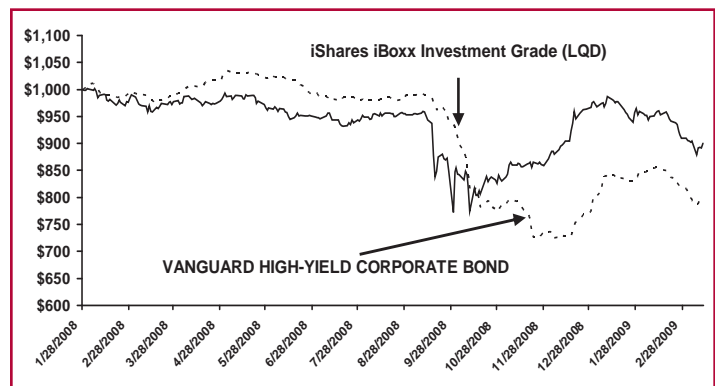
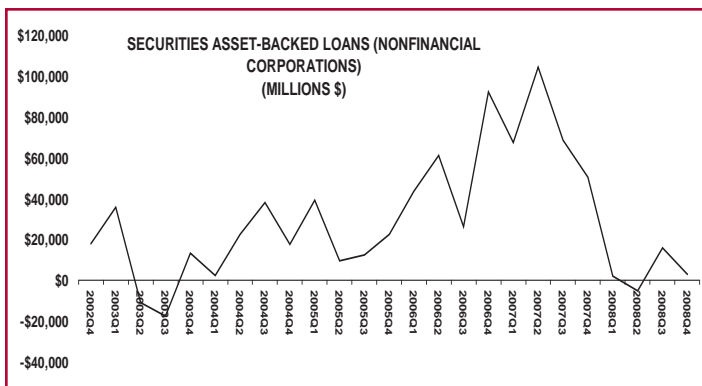
Will the TALF save the financial markets and the economy? While many analysts focus on bank lending, they were only about one third of the credit markets at the peak. Most loans were made through asset-backed securities. The ABS market shrank dramatically in the crisis and has not recovered, as you can see from the first chart. The Term Asset-Backed Loan Facility (TALF) aims to restore that market. The government will be partners with private investors to buy new asset-backed securities. The program has been slow to get off the ground, because investors are negotiating the restrictions. The Fed hopes this will become a \$1 trillion program and increase auto and student loans and credit card limits. But the program will subsidize only loans to high-quality borrowers and does nothing to improve consumer balance sheets. So it is not clear it will end the deleveraging process or trigger significant new borrowing and spending.

I watch the credit markets to gauge the state of the financial crisis. Investment grade and high-yield corporate bonds took a beating last fall. They staged a rally late in 2008 that continued even after the bear market rally in stocks ended. It looked hopeful. But the bonds suffered declines before their rallies went too far and gave up most of their gains, as you can see in the second chart. The spreads between yields on these bonds and treasury bonds have increased again, but not to the extreme levels in October 2008. Corporations have been able to sell new bonds, but only at stiff terms. It still is too early to lock in the high yields and potential capital gains of these bonds. Investors should worry about defaults in 2009 and 2010.

In the third chart we see the dollar has been strong through most of the crisis. This surprised some investors. They thought the debt crisis, falling economy, and new treasury debt would cause a flight from the dollar. But many foreign economies are in worse shape. In addition, most debt around the world is issued in dollars. Investors need dollars to repay those debts. In time, that factor will diminish and investors will focus on the amount of treasury debt to value the dollar.

The last chart is the S&P 500 since 1993. It shows the last part of the bull market plus the bear market. From this you can see the March 2009 rally is a mere blip in the bear market and there is no hurry to buy stocks in search of a bottom. When a new bull market begins, there will be plenty of time to get on board. For now, we want to avoid more large losses.

CHARTS OF THE MONTH



The Battle for Your Money



Market Watch

There has been a battle between stock owners and taxpayers on the one side versus bondholders and other creditors on the other side. So far, the bondholders are winning in a rout. Or a landslide. Or whatever term you prefer for overwhelming victory. The battle over public policy and directly affects your portfolio and cash flow, but it is mostly behind closed doors.

While there are many reasons for the crisis, the bottom line is that households and businesses have too much debt. Incomes and asset values cannot support the debt. As asset values peaked in the 2005-2007 period, defaults increased. The defaults led to widespread asset liquidation and deleveraging that accelerated in 2008 and almost froze the financial system.

Usually when someone borrows too much money, there are two solutions. The borrower can default. Or the borrower and lenders can restructure the debt, usually by reducing the debt level and perhaps giving the lenders equity.

The default route has been followed by homeowners across the country. But governments around the globe have prevented default in many other cases, especially when the debtors are banks or other financial institutions. Bondholders and other creditors took losses in the failures of Washington Mutual and Lehman Brothers. Other than that, the government has gone out of its way to protect the creditors while wiping out or severely diminishing the equity of common stock owners and in some cases preferred stock investors.

It was reported that the billions of dollars pumped into AIG were transferred to European banks and other creditors of the firm, including Goldman Sachs. Many payments apparently went to holders of credit default swap contracts with AIG. These investors basically bet that there would be defaults on debt.

There might be good reasons to protect creditors at the expense of shareholders, employees, and taxpayers. Perhaps bondholder losses would cause a longer-lasting freeze in the credit markets. Or maybe foreign investors no longer would be willing to purchase any U.S. debt. It could be credit default swaps are so widespread that there would be a chain reaction of failures if these contracts did not pay off.

But this is a debate that should be open, because it is determining government policy. The string of taxpayer-financed bailouts is really to save the creditors from losses. Most of the

insolvent firms would be solvent if the normal process of restructuring debt were followed. Other firms and households simply do not have enough assets or income to support their debt and probably never will.

The goal of the taxpayer financing seems to be to stall in the hope asset values and income will recover in time to avoid defaults or attract buyers. As I said, this should be debated openly, because if the policy fails there won't be enough taxpayer money to pay off all the debt.

The programs put in place since the summer of 2008 have had positive effects. Basic functioning has been restored to the credit markets, and their collapse no longer seems likely. But the programs do not restore business and household balance sheets. The balance sheets, in fact, are deteriorating because the policies are not reversing the cycle of falling asset values and incomes leading to reduced spending leading to job reductions leading to further declines in values and income.

The cycle is treated as a confidence problem rather than a balance sheet problem. Officials seem to believe publicizing big programs will restore confidence and stop the cycle. I believe the debt levels cannot be sustained. The creditors who made the loans need to take their losses, reducing the debt owed by households and businesses. Spending, investing, and borrowing won't amount to much until balance sheets improve. If the losses are not taken through loan restructuring, they will be taken over time through inflation. This discussion needs to be in the open, because the restructurings would have to be better planned than bankruptcy of Lehman Brothers. Because of the lack of planning and notice, that bankruptcy accelerated the downward spiral and caused chaos for several months.

Proof that too much debt is the problem is in the lack of demand for loans despite all the new programs and low interest rates. In fact, households are reducing debt.

Stocks still are in secular bear markets. For the long-term, we are at or near a point at which an equity investor should be able to anticipate 10-year annualized returns of 7% or higher. But it will be a bumpy ride, and there still is the potential for sharp declines. The risk is mistaking a bear market rally for a new bull market and loading up on equities early. Don't rush. Once a new bull market begins, there will be years of above-average returns ahead.

Our investment goal is to preserve capital until there are clear signs balance sheets are improving. **RW**

“The programs put in place since the summer of 2008 have had positive effects.”

Safe Havens in the Bear Market



Portfolio Watch

Some elements of the economy and markets have improved since the darkest days of last fall. Banks generally are lending to qualified borrowers. In the worst hit housing markets there are signs bottoms are forming; buyers are attracted by bargains. Credit market conditions have improved enough to enable a number of major companies to sell new bonds. As we examined last month, not all stock sectors fell equally this year. It is good to see investors discriminating among stocks instead of selling all of them.

These changes, however, are nibbling around the edges of the problems. In February's visit I introduced you to the wealth effect and the Federal Reserve's quarterly Flow of Funds report. The report for the fourth quarter of 2008 recently was released. It shows household net worth declined 18% in 2008. Net worth declined though household debt decreased at a 2% annual rate in the fourth quarter and rose only a half percent for the year. Savings also increased for the year. That means asset prices decreased significantly, bringing the decline in net worth to a cumulative \$11.2 trillion for the year.

Investors who continue to treat the current situation as a traditional recession and bear market will keep losing wealth. We are unwinding a multi-decade debt and credit expansion. Households are reducing debt, increasing saving, and generally scaling back. Businesses also are trying to reduce the leverage on their balance sheets, make their operations even leaner, and generally be more conservative. There won't be sustainable equity market returns until this deleveraging process is over. There also is significant default risk in non-treasury bonds as long as the economy is sliding.

A good example of how this cycle is different and how the actions of other investors affect your portfolio is the Harvard University endowment.

Harvard has the largest endowment fund, at one point over \$36 billion. The endowment had a sophisticated management strategy. Relatively low levels of the fund were invested in traditional stocks and bonds. It owned a lot of illiquid assets such as real estate, timber, private equity funds, and hedge funds. It also used futures and derivative contracts to take positions in stocks, commodities, and other investments.

The strategy worked fine for decades. When the markets went south in 2008, however, the endowment had margin calls on its derivatives positions and other needs for cash. Most investors have cash to cover such needs. Harvard did not have enough cash. Because of its strategy it also did not have a lot of liquid, easy-to-sell assets. It had to dump about two thirds of its stock portfolio at whatever prices it could.

A similar scenario played out at many endowments, foundations, hedge funds, and other investment funds in 2008. Cash had to be raised to meet margin calls, cash calls and redemptions. Investments were sold regardless of price

simply to get cash. Even conservative, long-term investors suffered paper losses because of the selling forced on investors in positions similar to Harvard's. The liquidation/redemption cycle probably is not over yet. Even if it is, the level of risk-taking that pushed stock prices higher in the bull market will not return soon.

There is no rush to return to the equity markets. We are maintaining our capital preservation portfolios until there are clear signs deleveraging is nearing an end.

The Managed Portfolios

Capital preservation did its work in the steep market declines of January, February, and early March. As of March 12, the Sector Managed Portfolio was down less than 1% for the year while the S&P 500 lost over 16%. We had a similar advantage in all of our Managed Portfolios, though the Income Managed Portfolio was down almost 2% for the year to date. Our portfolios also are ahead of the S&P 500 over longer periods.

The weakest performer in these portfolios has been **Cohen & Steers Closed-End Opportunities Fund**. The fund's share price basically has tracked the S&P 500 so far this year. It has a nice double-digit yield to add to its share price performance. But dividends and yields are at risk across the board. Also, in this market I don't want an asset that tracks the S&P 500 so closely. I am recommending that we close the position and invest the proceeds in **Hussman Strategic Growth (Vanguard Short-Term Federal Bond)** in the Income Managed Portfolio.

There has been a steady upward climb in HSGFX since mid-January. Last October fund manager John Hussman concluded stock prices declined enough that equities were reasonably priced. He removed most of the hedges on the fund. That enabled the fund to participate in much of the rally from Thanksgiving through early January. After the rally ended, Hussman increased the hedges on the portfolio and seems to have steadily increased them in 2009. The result is a modest gain for the year so far.

Hussman joins me in believing government policy has not been effective and might have made the crisis worse. While he was once fairly optimistic that we were nearing a resolution of the crisis and a long-term bottom in equities, that seems to have passed. The fund maintains a portfolio of over 100 stocks, but it also is using options to hedge most of that portfolio against market declines. The performance of the fund now depends largely on the relative performance of its stocks versus the index.

Keep in mind that HSGFX is not a permanently hedged fund or a "bear market" fund. The options in the portfolio are adjusted based on market valuations and climate. At times the hedges are removed completely, and at other times options will be used to leverage the portfolio. But this is not one of those times.

While Hussman believes current stock valuations reflect the probability of average or above average returns for the long-term (10 years or more), the economic and market climate could result in a further substantial loss in

the near term. This is a trader's stock market. That is why we want a fund such as this that can hedge against a possible market decline and lift those hedges on short notice when conditions warrant taking more risk.

Another major position in the portfolio is in Treasury Inflation-Protected Securities (TIPS) via **Vanguard Inflation-Protected Securities**.

TIPS are treasury bonds with a hedge against inflation. The principal of a bond is increased each year by the increase in the Consumer Price Index. Originally issued bonds will not see their principal decrease if there is deflation in the CPI. But bonds you purchase in the secondary market can have their principal reduced when there is a deflationary year for the CPI.

Because of the deleveraging spiral we are in, I do not see inflation as a problem right now. But it is a potential problem down the road, and inflation likely will be reflected in TIPS prices before it shows up in the CPI. Yet, the main reason to hold TIPS now is they are bargains. They are above their extreme lows of late 2008, but they still are priced on expectations of little or no inflation for the next 10 years. I do not think deflation is likely to continue for the life of the TIPS, so I recommend having them in your portfolio.

I recommend buying the TIPS through a fund because they are easier to buy and sell that way. The Vanguard fund is preferred because it is one of the oldest funds to specialize in TIPS and it has the lowest expenses. We bought the fund after a sharp decline in the second half of 2008, and it is about flat for 2009.

Our worst positions, after Cohen & Steers Closed-End Opportunities, are those that would benefit from a decline in the dollar. **Price International Bond** and **DB International Government Inflation-Protected Bond** own foreign bonds, primarily those issued by governments. They have tracked each other in recent months as the dollar increased in value relative to most other currencies.

On the first page of this section we discussed why the dollar is doing well despite all the debt the treasury has issued and is going to issue. There is a strong potential this trend will reverse at some point. We cannot tell when the reversal will come, so we want to be positioned to profit when it occurs. The funds began a rally in early March. We will see if it continues. I believe at some point technical factors favoring the dollar will end, and investors will seek the currencies of countries with stronger balance sheets and less debt to issue. In the meantime, each fund is paying a yield of about 3%.

Hussman Total Return also is managed by John Hussman with a different strategy. The fund is allocated among different bonds, utility stocks, gold mining company shares, and sometimes foreign currencies and precious metals. The allocation changes based on relative valuations of the different assets and on market factors.

For some time the fund has invested primarily in TIPS with short durations—two years and less. It has smaller positions in the other assets. The fund dipped from mid-February through early March. The decline tracked a

decline in the price of gold, so it likely was due to losses in the fund's gold mining shares. The asset rotation in the fund has worked well over time. Changes in the price of gold and allocation to the mining shares can cause short periods of volatility. In general the fund is managed conservatively and provides a fairly steady return.

Vanguard Short-Term Government Bond is a steady performer. It invests in short-term bonds of agencies whose debts are backed by the U.S. government. The average maturity of the fund usually is two years or less. The risk from both default and rising rates is low. The fund share price will decline a few pennies when interest rates rise, but not nearly as much as for longer-term bonds. Because the fund buys agency bonds instead of treasury bonds, the yield tends to be a little higher than from a short-term treasury bond fund. The yield recently was just under 4%, according to Morningstar. The biggest issuers of debt owned by the fund are Fannie Mae and the Federal Home Loan Bank.

Rounding out these portfolios is **TCW Total Return Bond**. This fund buys primarily mortgages and related instruments. You probably won't know or understand most of the securities in the portfolio. But manager Jeffrey Gundlach and his team are the best at analyzing mortgages and related investments. The fund sailed through the tumultuous 2008 with a slowly declining share price supplemented by a steady yield that combined for a total return of just over 1% for the year.

The fund says it has been finding bargains in prime mortgages that are making their payments but selling at discounts because of the general market climate. The share price has been bounding between \$9.10 and \$9.30 this year. While the share price has stayed within that range, the yield collected by investors has been creeping up and recently was between 7% and 8%. The monthly payouts from the fund have been increasing for the last year.

The Core Portfolios

The Core Portfolios own some funds that are not in the Managed Portfolios and do not own Cohen & Steers Closed-End Opportunities and TCW Total Return Bond.

The leader in all our portfolios, and one of the most volatile components, is our gold position held through **iShares Comex Gold Trust**. Gold soared to \$1,000 in late February before sinking. It still is up about 5% for the year. Gold is relatively thinly traded and can be influenced by the flow of a relatively small amount of money. Its price likely is influenced by hedge funds and other leveraged investors. So far in 2009 it surged during the most pessimistic periods and fell when fears declined. In 2008 it declined sharply during the deleveraging as investors sold whatever they could. This is a good insurance position to have in the portfolio in these unusual times.

The big loser in all our portfolios without contest is **Cohen & Steers Realty Shares**. Simply put, real estate investment trusts were hammered by investors the first two and a half months of the year. The yield on the fund, based on the last 12 months' distributions was pushed above 10% at the low point.

But the fund came roaring back with the stock market rally beginning March 8. The loss for the year was pared from 40% to 25% in a week and a half of trading.

REITs buy commercial properties, and commercial real estate is lagging residential housing in the deleveraging. In the first months of this year REITs have seen bankruptcies, mortgage defaults, and many dividend cuts. Some REITs also are taking advantage of a new law that allows them to pay dividends in stock instead of cash. Many REITs and the properties they own are being marked down sharply because of fears steeper economic decline. More importantly, a number of properties were purchased with short-term debt late in the boom. Those debts are coming due this year and next. In the current climate, they cannot be refinanced.

When the economy and markets hit bottom, REITs will turn first and at a steeper rate. Cohen & Steers adjusted its portfolio last year to take advantage of the bad times. It owns primarily REITs with strong balance sheets that do not need to refinance their debt in the next couple of years.

Time to Add Muni Bonds?



Portfolio Watch

Many dislocations have occurred during the financial crisis. One of them is in tax-exempt, or municipal, bonds. The dislocation caused many investors to ask if they should add tax-exempt bonds to their portfolios.

Normally the yield on tax-exempt bonds is less than that on treasury bonds because of the tax benefit. Tax-exempts with top credit ratings should have about the same *after-tax yield* as treasuries. But after the Lehman Brothers collapse, investors sold all assets with any amount of risk. Hedge funds had to sell quality assets to meet redemptions and reduce leverage, so they sold tax-exempts.

The selling was damaging to tax-exempt investors. Yields on tax-exempts soared to above treasury yields. Prices of tax-exempt bonds declined by about 12% in 2008. **Vanguard Long-Term Tax-Exempt** had a total return of -4.87% in 2008.

Munis are tempting. Even after a bounce off the bottom, tax-exempts still yield more than treasuries by about 0.7 percentage points. Tax-exempt bond fund inflows increased steadily in recent months. With their higher yields and tax exemption, even top-rated tax exempts generate higher after-tax yields than treasuries.

Helping boost recent demand for tax-exempts is the federal stimulus bill. It transfers hundreds of billions of dollars to state and local governments. Investors expect this money to ease budget problems for many governments and avoid defaults on bonds.

In addition, tax-exempts historically are very secure. Even governments that default on their payments almost always find a way to repay the principal and at least some of the interest over time.

Even so, investors should not expect big returns from tax-exempts just yet. They had a good bounce. The

These REITs should be able to buy weaker REITs or their properties if the market continues to deteriorate. While the fund's sharp decline so far this year was not anticipated, the potential of the portfolio makes it worth holding in the Core Portfolios.

Utility shares also took hits mid-February through mid-March. The Income and Income Growth Core Portfolios own these through **American Century Utilities Income** and **FBR American Gas Index**. The slower economy raises fears of reduced power use and therefore reduced revenues at utilities. In addition, the President's budget proposals raise the specter of much higher costs being imposed on utilities and their customers. That triggered a sell off in stocks that had held up well as defensive positions since last October. I recommend keeping the funds in the portfolio until we know how the energy and environmental proposals will develop. The funds now yield over 4%, and they usually have done better returns than the S&P 500. Let's wait and see if they are in for fundamental changes. **RW**

Vanguard fund at one point in February was up over 4.5% for 2009, but it declined 1.88% in the last four weeks and now has less than a 3.5% return for the year.

Investors are learning that only a small portion of the stimulus payments can be used to pay debt or for general budget purposes. The money must be used for specific programs such as unemployment benefits. It also obligates the states to increase future spending on some programs, possibly making their budget situations worse. As the economy continues to deteriorate, the budgets of many states and localities also are deteriorating. That is causing fresh worries about their ability to pay their bonds.

In addition, hedge funds and other traditional buyers of tax exempts are not back in the market and probably won't be, at least for a while. Even at attractive prices there are fewer potential buyers for the bonds.

Another problem is the private companies that insure tax-exempts, such as MBIA, are in financial distress. Investors don't know if their guarantees can be relied on if a bond issuer defaults.

Also, there are likely to be increased issues of debt by federal, state, and local governments in coming years. If the new supply increases interest rates, holders of existing bonds will see their values decline.

If you are interested in the higher yields of tax-exempts, buy primarily general obligation bonds of states and localities. These have the highest legal protection. Payments on others might be limited to the income from specific agencies, projects, or assets. Though you have to buy tax-exempts from your own state to maximize tax benefits, consider diversifying among states to reduce risk.

Also, few people should buy individual bonds. The cost of buying and selling individual bonds can be high for small investors, and diversification is tough to achieve. Most individuals should invest in a low-cost mutual fund such as those from Vanguard. **RW**

Retirement Watch Recommended Portfolios — April 2009

Sector Portfolio

| Fund | Mgd. Port. | Core Port. | 50% Core/ 50% Mgd. | Ticker | Category | 4-Wk Return | Telephone | Buy Below | Sell Below | Min. Invest. IRA/Regular |
|-------------------------------|------------|------------|-----------------------|--------|------------------|-------------|--------------|-----------|------------|--------------------------|
| Vanguard Infl-Protected Sec | 30% | 35% | 32.5% | VIPSX | IP Bonds | -1.19% | 800-662-7447 | N/A | | 3000/3000 |
| DB Int'l Gov't Infl-Prot Bond | 5% | 5% | 5.0% | WIP | Int'l IP Bonds | -2.41% | N/A | 46.50 | | N/A |
| Price International Bond | 10% | 10% | 10.0% | RPIBX | Int'l Bonds | -2.81% | 800-638-5660 | N/A | | 1000/2500 |
| Vanguard S-T Federal Bond | 15% | 10% | 12.5% | VSGBX | Short-Term Bonds | 0.44% | 800-662-7447 | N/A | | 3000/3000 |
| iShares Comex Gold Trust | 0% | 5% | 2.5% | IAU | Gold | -1.41% | N/A | 87.00 | | N/A |
| Cohen & Steers Realty Sh. | 0% | 5% | 2.5% | CSRSX | REITs | -4.47% | 800-437-9912 | N/A | | 0/10000 |
| Hussman Total Return | 5% | 15% | 10.0% | HSTRX | Hedge Fund | -3.18% | 800-487-7626 | N/A | | 1000/500 |
| Hussman Strategic Growth | 30% | 15% | 22.5% | HSGFX | Hedge Fund | 3.31% | 800-487-7626 | 11.25 | | 1000/500 |
| TCW Total Return Bond | 5% | 0% | 2.5% | TGMNX | Bonds, Mortgages | 0.46% | 800-386-3829 | 9.70 | | 500/2000 |
| C&S Closed-End Opportun. | 0% | 0% | 0.0% | FOF | Closed-End Fund | -16.24% | NA | 8.65 | | N/A |

Balanced Portfolio

| Fund | Mgd. Port. | Core Port. | 50% Core/ 50% Mgd. | Ticker | Category | 4-Wk Return | Telephone | Buy Below | Sell Below | Min. Invest. IRA/Regular |
|-------------------------------|------------|------------|-----------------------|--------|------------------|-------------|--------------|-----------|------------|--------------------------|
| Vanguard Infl-Protected Sec | 35% | 35% | 35.0% | VIPSX | IP Bonds | -1.19% | 800-662-7447 | N/A | | 3000/3000 |
| DB Int'l Gov't Infl-Prot Bond | 5% | 5% | 5.0% | WIP | Int'l IP Bonds | -2.41% | N/A | 46.50 | | N/A |
| Price International Bond | 10% | 10% | 10.0% | RPIBX | Int'l Bonds | -2.81% | 800-638-5660 | N/A | | 1000/2500 |
| Vanguard S-T Federal Bond | 20% | 20% | 20.0% | VSGBX | Short-Term Bonds | 0.44% | 800-662-7447 | N/A | | 3000/3000 |
| iShares Comex Gold Trust | 0% | 5% | 2.5% | IAU | Gold | -1.41% | N/A | 87.00 | | N/A |
| Cohen & Steers Realty Sh. | 0% | 5% | 2.5% | CSRSX | REITs | -4.47% | 800-437-9912 | N/A | | 0/10000 |
| Hussman Total Return | 0% | 10% | 5.0% | HSTRX | Hedge Fund | -3.18% | 800-487-7626 | N/A | | 1000/500 |
| Hussman Strategic Growth | 25% | 10% | 17.5% | HSGFX | Hedge Fund | 3.31% | 800-487-7626 | 11.25 | | 1000/500 |
| TCW Total Return Bond | 5% | 0% | 2.5% | TGMNX | Bonds, Mortgages | 0.46% | 800-386-3829 | 9.70 | | 500/2000 |
| C&S Closed-End Opportun. | 0% | 0% | 0.0% | FOF | Closed-End Fund | -16.24% | NA | 8.65 | | N/A |

Income Growth Portfolio

| Fund | Mgd. Port. | Core Port. | 50% Core/ 50% Mgd. | Ticker | Category | 4-Wk Return | Telephone | Buy Below | Sell Below | Min. Invest. IRA/Regular |
|-------------------------------|------------|------------|-----------------------|--------|------------------|-------------|--------------|-----------|------------|--------------------------|
| Vanguard Infl-Protected Sec | 40% | 35% | 37.5% | VIPSX | IP Bonds | -1.19% | 800-662-7447 | N/A | | 3000/3000 |
| DB Int'l Gov't Infl-Prot Bond | 5% | 5% | 5.0% | WIP | Int'l IP Bonds | -2.41% | N/A | 46.50 | | N/A |
| Price International Bond | 10% | 10% | 10.0% | RPIBX | Int'l Bonds | -2.81% | 800-638-5660 | N/A | | 1000/2500 |
| Vanguard S-T Federal Bond | 5% | 20% | 12.5% | VSGBX | Short-Term Bonds | 0.44% | 800-662-7447 | N/A | | 3000/3000 |
| iShares Comex Gold Trust | 0% | 5% | 2.5% | IAU | Gold | -1.41% | N/A | 87.00 | | N/A |
| Cohen & Steers Realty Sh. | 0% | 5% | 2.5% | CSRSX | REITs | -4.47% | 800-437-9912 | N/A | | 0/10000 |
| Hussman Total Return | 0% | 10% | 5.0% | HSTRX | Hedge Fund | -3.18% | 800-487-7626 | N/A | | 1000/500 |
| Hussman Strategic Growth | 20% | 0% | 10.0% | HSGFX | Hedge Fund | 3.31% | 800-487-7626 | 11.25 | | 1000/500 |
| FBR American Gas Index | 0% | 5% | 2.5% | GASFX | Equity Income | -14.99% | 800-343-3355 | N/A | | 500/2500 |
| Am.Cent. Utilities Inc. | 0% | 5% | 2.5% | BULIX | Equity Income | -12.69% | 800-345-7574 | N/A | | 2500/2500 |
| TCW Total Return Bond | 20% | 0% | 10.0% | TGMNX | Bonds, Mortgages | 0.46% | 800-386-3829 | 9.70 | N/A | 500/2000 |
| C&S Closed-End Opportun. | 0% | 0% | 0.0% | FOF | Closed-End Fund | -16.24% | N/A | 11.25 | N/A | N/A |

Income Portfolio

| Fund | Mgd. Port. | Core Port. | 50% Core/ 50% Mgd. | Ticker | Category | 4-Wk Return | Telephone | Buy Below | Sell Below | Min. Invest. IRA/Regular |
|-------------------------------|------------|------------|-----------------------|--------|------------------|-------------|--------------|-----------|------------|--------------------------|
| Vanguard Infl-Protected Sec | 40% | 40% | 40.0% | VIPSX | IP Bonds | -1.19% | 800-662-7447 | N/A | | 3000/3000 |
| DB Int'l Gov't Infl-Prot Bond | 5% | 5% | 5.0% | WIP | Int'l IP Bonds | -2.41% | N/A | 46.50 | | N/A |
| Price International Bond | 10% | 15% | 12.5% | RPIBX | Int'l Bonds | -2.81% | 800-638-5660 | N/A | | 1000/2500 |
| Vanguard S-T Federal Bond | 15% | 20% | 17.5% | VSGBX | Short-Term Bonds | 0.44% | 800-662-7447 | N/A | | 3000/3000 |
| iShares Comex Gold Trust | 0% | 10% | 5.0% | IAU | Gold | -1.41% | N/A | 87.00 | | N/A |
| Hussman Total Return | 0% | 10% | 5.0% | HSTRX | Hedge Fund | -3.18% | 800-487-7626 | N/A | | 1000/500 |
| TCW Total Return Bond | 30% | 0% | 15.0% | TGMNX | Bonds, Mortgages | 0.46% | 800-386-3829 | 9.70 | N/A | 500/2000 |
| C&S Closed-End Opportun. | 0% | 0% | 0.0% | FOF | Closed-End Fund | -16.24% | N/A | 11.25 | N/A | N/A |

This month: We are making one change in the portfolios. Sell **Cohen & Steers Closed-End Opportunities** from the Managed Portfolios. Invest the proceeds in **Hussman Strategic Growth** in most of the portfolios. In the Income Managed Portfolio invest the proceeds in **Vanguard Short-Term Federal Bond**. We still want to focus on capital preservation in our portfolios. It is hard to find signs the deleveraging cycle is nearing an end but easy to find indications another phase of the cycle is beginning. For example, credit card defaults are increasing at the same time credit card issuers are reducing credit limits. You might see investment advisors saying that investors need to be fully invested in equities now, because they do not want to miss the bottom of the bear market. The argument is most of the returns after a bottom are concentrated in a very short period. This is true of a bear market or correction within a long-term bull market. But it is not true at the end of a secular bear market such as this one. Once the bear market is over, a new bull market will begin with many years of average to above average returns. The key now is preserve our capital so we will be able to participate in the next bull market. As bottom seekers have learned the last two years, you can lose a lot of money quickly by calling a bear market bottom too early.

*"Buy Below" and "Sell Below" prices are for Managed Portfolios only. See the report How To Get The Most From Retirement Watch for portfolio explanations. Returns are as of March 13, 2009..

One-Stop Recommended Portfolios

Simplify your investment life and probably improve returns by concentrating your investments at one or two mutual fund firms or brokers. It will be easier to track and manage your portfolio.

The One-Stop Portfolios let you follow our margin-of-safety investment approach at the major fund companies and No Transaction Fee (NTF) programs. Those who want to use Exchanged-Traded Funds can follow our ETC portfolio.

Start with our recommended fund in the left column. Find the alternative fund in the same row in the appropriate column to the right.

There is not always a good alternative to one of my recommended funds. Then, consider paying a fee to invest in my recommended fund or opening an account directly in that fund. Other alternative funds are on the web site under Carlson's Choice mutual funds.

One-Stop Alternative Portfolios

| RW Recommended Fund | NTF Funds* | ETFs | Fidelity | Price | Vanguard |
|------------------------------|---------------------------|---------------------------|---------------------|---------------------|--------------------------|
| Vanguard Short-Term Fed | Am. Cent. S-T Gov't | iShares Lehman 1-3 yr Sp. | S-T Gov't Index | N/A | Short-Term Fed |
| iShares Comex Gold Trust | N/A | N/A | N/A | N/A | N/A |
| Cohen & Steers Realty | Cohen & Steers Realty | C&S Realty Maj. | Real Estate | Real Estate | REIT Index |
| C&S Closed-End Opport. | N/A | N/A | N/A | N/A | N/A |
| TCW Total Return Bond | Dreyfus Basic US Mtg. | NA | Adv. Mortgage Sec. | GNMA | GNMA |
| Price International Bond | Am. Cent. Int'l Bond | SPDR Barclays TIP | N/A | International Bond | N/A |
| DB Int'l Gov't Infl-Prot. | N/A | N/A | N/A | N/A | N/A |
| Hussman Total Return | N/A | N/A | N/A | N/A | N/A |
| FBR Am. Gas Index | FBR Gas Utility Index | S&P | Equity Income | Dividend Growth | Dividend Growth |
| Am. Cent. Util. Inc.. | Am. Cent. Util. Inc. | DJ US Utilities | Equity Income | Dividend Growth | Dividend Growth |
| Hussman Strategic Gr. | Leuthold Asset Allocation | NA | Trend | Value | NA |
| Vanguard Infl-Protected Sec. | Am Cent Infl-Adj. Bond | iShares Lehman TIPS | Inflat-Protect Bond | Inflation-Prot Bond | Inflation-Protected Sec. |

**Not all NTF funds listed are available from all the NTF programs. Some are more restrictive than others, and some funds do not want to be available on all the NTF programs.*

Invest with the Winners Aggressive Trading Portfolio: Classic Mutual Funds

| Funds | 4-weeks | 13-weeks | 26-weeks | 39-weeks | 52-weeks | Tickers | Telephone | This Month: |
|--------------------------------|---------|----------|----------|----------|----------|---------|--------------|-------------------------------|
| Am. Cent. Target Mat. 2020 | 0.79% | -0.70% | 4.50% | 12.53% | 5.71% | BTTX | 800-345-7574 | Last month the portfolio was |
| Vanguard Long-Term U.S. | 0.88% | -4.54% | 6.70% | 14.40% | 7.66% | VUSTX | 800-662-7447 | half in cash and half in |
| Am. Cent. GNMA | 0.82% | 2.25% | 4.33% | 9.07% | 6.54% | BGNMX | 800-345-7574 | Schwab Long-Term |
| Vanguard GNMA | 0.84% | 1.91% | 4.32% | 8.74% | 5.96% | VFIIX | 800-662-7447 | Tax-Free Bond. The |
| Am. Cent. Target Mat. 2015 | 0.70% | -0.16% | 4.07% | 9.85% | 3.54% | BTFTX | 800-345-7574 | fund has declined, but |
| Vanguard Short-Term Fed. | 0.44% | 1.21% | 3.53% | 6.84% | 4.61% | VGBX | 800-662-7447 | not more than 7% from |
| Am. Cent. Intermediate Treas. | 0.27% | 1.04% | 3.10% | 7.39% | 3.67% | CPTNX | 800-345-7574 | its recent high, which |
| Vanguard Intermed.-Term Treas. | 0.27% | -2.17% | 3.64% | 8.66% | 3.23% | VFITX | 800-662-7447 | was \$10.86. Hold until |
| Janus Flexible Income | -0.99% | 2.58% | 2.59% | 5.89% | 2.63% | JAFIX | 800-525-8983 | it does. We will add the |
| Payden & Rygel Gl Fixed Inc | -0.47% | 1.85% | 1.95% | 5.29% | 0.46% | PYGFX | 800-572-9336 | #2 fund, American |
| Schwab Long-Term T/F Bond | -1.04% | 5.65% | 0.14% | 3.15% | 4.00% | SWNTX | 800-526-8600 | Century Target |
| Am. Cent. Target Mat. 2025 | 1.23% | -11.36% | 4.29% | 14.67% | 6.78% | BTRX | 800-345-7574 | Maturity 2020. Sell if |
| Am. Cent. Target Mat. 2010 | 0.03% | -0.50% | 2.41% | 5.01% | 1.83% | BTTNX | 800-345-7574 | the fund declines more |
| Vanguard Total Bond Index | -0.42% | 0.95% | 1.32% | 4.77% | 2.57% | VBMFX | 800-662-7447 | than 7% from its recent |
| FPA New Income | 0.09% | 0.95% | 1.76% | 3.69% | 2.91% | FPNIX | 800-982-4372 | high which so far is |

** Returns are total returns as of March 13, 2009. X=closed to new investors.*

Invest with the Winners Aggressive Trading Portfolio: Exchange-Traded Funds

| Funds | Tickers | 4-weeks | 13-weeks | 26-weeks | 39-weeks | 52-weeks | This Month: |
|---------------------------------|---------|---------|----------|----------|----------|----------|--|
| ProShares Ultra Short S&P 500 | SDS | 12.83% | 16.79% | 50.93% | 69.54% | 49.49% | This Month: This portfolio was in cash again for the last month. Our top-ranked funds both are more than 12% below their recent highs and have negative returns for the last week because of the mid-March rally. This means they do not meet our buy rules, so we will not make a purchase. The portfolio will remain in cash. |
| ProShares Ultra Short Dow 30 | DXD | 12.23% | 22.23% | 43.32% | 58.27% | 46.40% | |
| ProShares Ultra Sh MdCap 400 | MZZ | 14.62% | 3.09% | 62.07% | 86.87% | 40.06% | |
| iShares Silver | SLV | -3.62% | 28.70% | 21.40% | -92.01% | -93.61% | |
| ProShares Short Dow 30 | DOG | 6.60% | 13.54% | 33.65% | 41.55% | 35.91% | |
| ProShares Short S&P | SH | 7.00% | 9.74% | 37.03% | 46.39% | 37.01% | |
| StreetTracks Gold | GLD | -1.35% | 12.98% | 20.85% | 6.37% | -7.51% | |
| iShares Comex Gold | IAU | -1.41% | 12.88% | 20.80% | 6.34% | -7.92% | |
| ProShares UltraShort QQQ | QID | 6.72% | -4.25% | 38.53% | 63.95% | 19.37% | |
| ProShares Short QQQ | PSQ | 4.13% | -0.86% | 27.43% | 39.95% | 19.41% | |
| ProShares Short MidCap 400 | MYI | 8.31% | -9.11% | 21.29% | 31.92% | 14.91% | |
| iShares Barclays 7-10 Yr. Treas | IEF | 0.14% | -1.75% | 6.07% | 10.62% | 3.66% | |
| iShares 1-3 Yr. Treasury | SHY | -0.08% | -0.70% | 1.39% | 2.62% | 0.00% | |
| iShares NASDAQ Biotech | IBB | 0.00% | 0.00% | 0.12% | 8.74% | 16.81% | |
| DJ US Chemicals | IYD | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | |

** Returns are total returns as of March 13, 2009.*

Invest with the Winners Aggressive Trading Portfolio: ProFunds Family

| Funds | 4-weeks | 13-weeks | 26-weeks | 39-weeks | 52-weeks | Tickers | This Month: |
|--------------------------------|---------|----------|----------|----------|----------|---------|---|
| ProFunds UltraShort Dow 30 | 12.42% | 28.21% | 59.61% | 76.58% | 61.59% | UWPIX | We have been in cash for a couple of months. The top-ranked funds are short selling funds. The markets reversed course again recently, and they have negative returns for the latest week. We will not buy them. The portfolio will remain in cash for another month. |
| ProFunds UltraBear | 12.19% | 16.91% | 63.02% | 85.86% | 63.02% | URPIX | |
| ProFunds UltraSh International | 13.30% | 19.55% | 30.41% | 79.19% | 62.71% | UXPIX | |
| ProFunds UltraShort Japan | -2.06% | 16.35% | 29.39% | 67.23% | 17.15% | UKPIX | |
| ProFunds Short Small-Cap | 10.58% | 9.27% | 42.95% | 43.12% | 27.69% | SHPIX | |
| ProFunds UltraShort OTC | 6.53% | -6.67% | 36.50% | 62.92% | 20.03% | USPIX | |
| ProFunds Bear | 6.75% | 4.78% | 31.60% | 41.64% | 33.23% | BRPIX | |
| ProFunds Short OTC | 4.19% | -0.84% | 26.57% | 39.25% | 19.94% | SOPIX | |
| ProFunds Short Oil & Gas | 9.67% | 2.86% | 7.01% | 28.24% | 10.42% | SNPIX | |
| ProFunds Rising US Dollar | 1.23% | 3.37% | 7.83% | 14.43% | 17.88% | RDPIX | |
| ProFunds Short Real Estate | -1.04% | -3.19% | 16.56% | 13.27% | 1.86% | SRPIX | |
| ProFunds Rising Rates Oppo 10 | -0.41% | 0.67% | -10.68% | -15.22% | -10.07% | RTPIX | |
| ProFunds Rising Rate Opportun | -1.18% | 9.36% | -20.19% | -28.70% | -23.20% | RRPIX | |
| ProFunds Falling US Dollar | -1.47% | -9.64% | -15.04% | -19.98% | -22.32% | FDPIX | |
| ProFunds Pharmaceuticals | -9.30% | -8.16% | -29.69% | -26.51% | -27.60% | PHPIX | |

* Returns are total returns as of March 13, 2009. Telephone 888-776-3637.

Invest with the Winners Aggressive Trading Portfolio: Rydex Family

| Funds | 4-weeks | 13-weeks | 26-weeks | 39-weeks | 52-weeks | Tickers | This Month: |
|------------------------------|---------|----------|----------|----------|----------|---------|---|
| Rydex Inverse Dynamic Dow | 11.92% | 28.72% | 67.09% | 85.89% | 71.22% | RYCWX | Last month we were in cash. The top-ranked funds are more than 12% below their recent highs and have negative returns for the latest week, results of the strong market rally in mid-March. The funds do not meet our buy rules, so we will not make any investments this month. The portfolio will remain in cash for the month. |
| Rydex Dyn Inverse S&P 500 | 11.97% | 18.66% | 65.89% | 89.34% | 65.67% | RYTPX | |
| Rydex Inv Dynam Russell 2000 | 19.17% | 12.28% | 64.79% | 61.71% | 26.18% | RYIRX | |
| Rydex Inverse Dynamic OTC | 6.39% | -4.76% | 45.01% | 73.12% | 26.29% | RYVNX | |
| Rydex Inverse Mid-Cap | 7.68% | 4.79% | 43.13% | 56.59% | 37.37% | RYMHX | |
| Rydex Inverse Russell 2000 | 10.05% | 11.29% | 45.24% | 45.16% | 29.11% | RYSHX | |
| Rydex Ursa | 6.61% | 11.34% | 40.27% | 51.13% | 42.35% | RYURX | |
| Rydex Inverse S&P 500 | 6.61% | 11.34% | 40.27% | 51.13% | 42.35% | RYURX | |
| Rydex Inverse OTC | 3.71% | -1.07% | 28.82% | 42.08% | 22.61% | RYAIX | |
| Rydex Dyn Strengthen Dollar | 1.99% | 6.37% | 16.34% | 30.29% | 37.73% | RYSBX | |
| Rydex U.S. Gov't Bond | 0.05% | -12.32% | 13.99% | 27.13% | 16.64% | RYGBX | |
| Rydex Large Cap Japan | 0.00% | 0.00% | 0.00% | 0.00% | 6.09% | RYJPX | |
| Rydex Large-Cap Growth | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | RYAWX | |
| Rydex Inverse Gov Long Bond | -1.40% | 8.48% | -14.57% | -22.48% | -17.24% | RYJUX | |
| Rydex Precious Metals | -7.57% | 17.14% | -8.85% | -36.17% | -48.89% | RYPMX | |

* Returns are total returns as of March 13, 2009. Telephone 800-820-0888.

About the Invest with the Winners Aggressive Strategies

Our Aggressive Portfolios, also known as Invest with the Winners, are for investors who want to seek higher returns with more risk with about 5% of their portfolios. The Aggressive Portfolios are automatic, momentum investment systems based on my ranking of funds. The systems requires a few minutes each week following some simple buy and sell rules.

Buy equal amounts of the top two funds in the rankings for the fund group you select. But do not buy a fund if (1) it has a negative return for the last four weeks or (2) its price is more than 5% below its recent high (7% for volatile funds). If a top-ranked fund is not eligible to be purchased, leave its half of your investment in a money market fund until the next month's issue.

Sell a fund when it drops below a pre-determined rank. I use the top 15 for the Exchange-Traded Funds and Classic Mutual Funds. For the Rydex and ProFunds families, I recommend selling a fund that drops below ranking eight. Also, sell a fund when it has a negative return for the most recent four weeks. Use 13 weeks if you want to limit trading.

Finally, sell a fund when its price drops more than 5% from its recent high for the Exchange-Traded Funds and Classic Mutual Funds (7% for volatile funds). For Rydex and ProFunds families, I recommend using 7% for most funds but 12% for the leveraged funds. If you make a sale between issues, keep the proceeds in a money market fund until the next month's rankings arrive.

More details are in the new subscriber report, *How to Get the Most Out of Retirement Watch*. I also update the portfolios when appropriate in my web journal in the members section of the web site at www.RetirementWatch.com.

Portfolio Performance

| | Sector | | Balanced | | Income Growth | | Income | | IWW |
|----------------|---------|---------|----------|---------|---------------|---------|--------|---------|----------|
| | Core | Managed | Core | Managed | Core | Managed | Core | Managed | Aggres.# |
| Last Month | -1.79% | -1.27% | -1.71% | -1.38% | -3.00% | -1.65% | -1.12% | -2.01% | 0.01% |
| Year to Date | -2.86% | -1.64% | -2.82% | -1.78% | -4.34% | -1.80% | -1.47% | -2.11% | -5.62% |
| Last 12 Months | -36.03% | -17.87% | -26.62% | -21.09% | -25.39% | -12.83% | -8.12% | -0.42% | -16.54% |
| 3 Years* | -12.07% | -6.52% | -7.93% | -7.56% | -7.19% | -4.67% | -0.23% | 0.86% | 5.31% |
| 5 Years* | -3.47% | -0.61% | -2.61% | -0.36% | -0.89% | -2.20% | -0.05% | 62.00% | 14.15% |
| 10 Years* | 1.51% | 5.21% | 1.83% | 4.89% | | | | | 18.65% |

*Annualized. #For Classic Mutual Funds only.

All portfolio returns are total returns, including dividends and other distributions, as of February 28, 2008. An investor might incur taxes, transactions fees, and other costs that are not included in the calculations. The Income Growth and Income Portfolios were begun in July 2001.