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WITH APOLOGIES TO FRANK: "IT WAS A VERY BAD YEAR"

Let's play a game. Imagine that it's January 15th, 2008. That is, it's twelve months ago. You walk into the offices of Westover Capital Advisors and plunk down \$2MM which you ask Chip and me to safeguard and wisely invest for you.

We say "All right, Joe. We will dump your money into a low-interest money market account paying a little over 1%. We'll keep it there for twelve months. And, by the way, you'll pay our standard fee for our investment advice. A year from now, Joe, you'll have your money back but nothing more."

Question: How many of you would have taken that investment advice? If I know my readers well, and I think I do, I suspect not one in a hundred of you would have taken that deal. I know I wouldn't have. But you know what? Hindsight is 20/20 isn't it? That would have turned out to have been a very good deal indeed.

Just how good would a return of zero percent have been? Well, it would have beaten the S&P 500 by 38.5%. It would have beaten the Dow by 33.8%. It would have crushed the international index by 45.1%.

It would also have beaten a portfolio completely invested in any bonds but U.S. treasuries. The Merrill corporate bond index was down 6.8% for the year. Munis were off 4%. High-yield bonds lost 26.4%, while preferreds were down 25.2%.

The lowly United States Treasury bill, which returned 2.4%, was a wonderfully performing asset class. Go figure!

History holds lessons for those who look and listen. The most important lesson, harsh though it was, in 2008 was that diversification of assets can cushion, although not prevent, horrific equity market downturns.

With apologies to Old Blue Eyes, 2008 was anything but a very good year. Frank might have crooned:

When it was 2008
It was a very bad year
It was a very bad year
For banks and brokerage firms
Once independent and strong
How'd they get it so wrong?
Their risk management sure wasn't great
When it was 2008

Measured by stock market performance we have to go back to the 1930s to see something as ugly. But I don't think we need to talk any more about the disaster that was 2008. The causes for it were many, the culprits numerous. The end result is that the effects were devastating for everyone's pocketbook.

So, Mr. Reader, if you were to renew your faith in Westover Capital by sitting in our conference room with another golden bag of dollars on January 15th, 2009, what would Chip and I say to you today?

We'd say the U.S. economy will get better. We'd say regulators did a better job, albeit still not good enough, in 2008 than they did in the early 1930s. We'd say that social safety nets are stronger today than they were in times past. We'd say the world is more interconnected today.

We'd say there is an inevitability to markets. **MARKETS GO UP AND MARKETS GO DOWN.** That Rule is immutable. If you ever needed a real life reminder of the last part of that Rule, look no further than the last half of 2008.

We'd say 2009 will not replicate the disaster that was 2008. At the same time the economy certainly will not be going gangbusters. The systemic and historic bailout thrown at our private economy by Washington will dislocate capital for many years to come. Yet it remains a necessary act.

Apply those lessons and the following ones and you will do well: Lesson Number One: Insist on asset allocation. John C. Bogle, the former Chairman of Vanguard, is the champion of this concept. His point is that everyone should have some bonds and some cash to go with their stocks.

Lesson Number Two: Be skeptical of exotic instruments and wary of opaque investment advisors. Hedge funds performed abominably in 2008 and were off 19%. Private equity tanked.

Bernie Madoff proved the rubric that transparency in an advisor's investment philosophy should always be paramount. If you don't understand what's going on, chances are some wool has been pulled over your eyes.

It seems to us here at Westover that a bottom has been made with the October and November stock market lows. We expect markets to end the year 2009 in positive territory.

The first five trading days of the year are often a bellwether for equity performance over the course of the entire year. While the signals were mixed this year, they were moderately positive through the fifth trading day of '09.

The U.S. market was up 1.03% and the S&P 500 was up 0.8%. Nevertheless, the Dow Jones Industrials were down 0.26%. If I remember the old saw correctly, as the first five trading days go, so the market has ended its respective year correctly 31 times out of the last 36 years. That bromide suggests we will have an up year.

Another voodoo measure to remember is how stocks do during the first year of a president's term. Going back to FDR the average market return for the first year of a presidential term is a positive 5.3%. The average for Republicans is 0.1% and for Democrats +10.8%. We all know what party Barrack is a member of, don't we?

Bob Doll is Vice Chairman and Director of BlackRock, a large and well-regarded global investment management, risk management and advisory service entity. I respect his view. He predicts that U.S. stocks will record a double-digit percentage gain in 2009.

Looking longer term, Chip and I believe that the stimulus provided by Washington has to be inflationary in the out years. We will soon be acting on that conclusion with respect to instruments we buy for clients in the fixed income arena.

We also believe that stock picking, as opposed to indexing, will be much appreciated in 2009. If we do say so ourselves it is that ability to find good stocks which has been a positive, constant hallmark and distinctive characteristic of Westover's. I've been doing this stock picking stuff for 40 years now -- first for myself, then for my law firm and now, for almost the last ten years, for the public. I find it intellectually fascinating, challenging and rewarding. Who'd 'a thunk it, but Chip does, too.

Of course, it's more fun for us when the end results for our clients are printed in black numbers rather than in red ones.

Listen to the Music

The quiz in our last Newsletter was to predict where the Dow Jones would end the year. At the time of the Newsletter in mid-October it stood at 8,852. It ended the year at 8,776.

Before I reveal the winner, let me make one observation you might find interesting. We received many, many guesses. All except for two were north of 8,776. A full 95% of our quiz participants were optimists! That says something about the human spirit, wouldn't you say?

The winner with a guess just a hair below the Dow's 12/31/2008 number was Jim Eversmann. He guessed 8,742. Jim is the former Executive Director of the Wilmington Parking Authority, a former Rotarian and a hardcore Notre Dame graduate and fan. It was my pleasure to give Jim and his wife, Pauline, football tickets last fall to Kenan Stadium in Chapel Hill, NC, when the Fighting Irish played the Tar Heels. (I was the one with the smile on my face when the game ended.)

Let's continue with a market return question. The question for this Newsletter is: Where will the Dow Jones Industrial average end the year 2009? Will it be up? Down? Give me your number.

Since we'll have to wait a full year to get our answer, let's make your guess worthwhile. Instead of a \$100 gift certificate to the restaurant of your choice, we'll double it. A \$200 gift certificate to the restaurant of your choice awaits the winner.

All predictions need to be submitted by January 31st, 2009.

The point of these quizzes is simple. I just want you to have fun and, in this instance, to pay a little bit of attention to these crazy markets. As the saying goes, it costs nothing to enter; you'll have some fun and hopefully you'll get to enjoy a good dinner on Westover's nickel.

On behalf of Chip and me, my very best wishes to you and yours for 2009.

January 14th, 2009