Jim Dobbs
DOBBS WEALTH, LLC
Registered Investment Advisor

Economic & Market Outlook - Volume: XII, 1st Quarter Edition

♦ Stimulus Impact
The Obama administration is pumping trillions of dollars into the economy in an attempt to keep us from going into depression. We fear however the U.S. will still fall into a long-term recession, and the stimulus will most likely only delay the downturn. Leading indicators have begun to show signs of a turnaround, but we expect this economic improvement will only be temporary. "Hope for the best; prepare for the worst."

♦ Value of the Dollar
The continued printing of money and resulting increase in money supply will certainly lead to a fall in the value of the dollar – it's only a matter of time. China and Russia have recently called for the IMF to create a global currency. China, which owns approximately 25% of our debt, has begun divesting itself of dollars by engaging in currency swaps with other countries; therefore we're not certain of an imminent global currency.

♦ Deflation vs. Inflation
We believe the most likely near term scenario is deflation given the data we've analyzed. This is perhaps the most critical question we face as investment managers as it determines our asset strategy going forward. At this point inflation would be our preference as it would indicate meaningful growth in the economy. It appears to us however that the economy is still in decline and the bottoming out phase will ultimately last many years. Neither deflation nor inflation will be pleasant, so we are making contingent plans to deal with either.

♦ Tax Rates
Tax rates will surely rise significantly in the coming years. The government owes trillions of dollars and faces rising health care costs and retirement expenses of the Baby-Boomers. Without significant economic growth raising taxes will be the only way to pay these debts. Generation X is relatively small and likely cannot make up the difference in lost productivity over the coming years, and the Echo-Boomers don't "enter" their peak earning and spending years until the 2020's. Additionally we expect continued economic stagnation or even contraction until the national debt is reduced significantly. Thus we would not be surprised to see personal income tax rates rise as high as 60%-70% with capital gains rates rising to 30%-40% in the decade ahead.

♦ Secular (long-term) vs. Cyclical (short-term) Markets
Since 1900 there have been 3 secular bull markets lasting an average of 16.3 years each and 3 secular bear markets lasting an average of 15.7 years each. Economic evidence and technical market analysis suggest that we've now moved into the next secular (long-term) bear market. Consequently we believe the "buy-and-hold" asset allocation strategies that worked well for investors over the last 20-25 years will not perform well in current bear market conditions (see buy-n-hold returns on page 2). Consequently we are not telling our clients to "*sit tight*" or "*hang in there*" as we believe significant changes must be made now in order to protect capital.

♦ Market Outlook
We expect the current "stimulus rally" on Wall Street may continue for a number of *months* but most likely not *years*, and we believe the bear market lows have most likely not yet been seen. We are bullish on oil in both the short and long run. China and other emerging countries are still growing, albeit more slowly, and will continue to demand natural resources including oil. We also believe the dollar may continue to rise in the short run, and gold may continue to fall in coming months given the strength of the stock market rally. We do however believe both trends will likely reverse once the rally in stocks fades and the market makes new lows.

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2009 Year-to-Date Performance: Major Indexes & Benchmarks

+00.12%	US Aggregate Bond Index
–16.21%	US Total Market Index
–12.48%	Dow Jones Industrial Index (DJIA)
–11.01%	Standards & Poor's 500 Index (large cap)
–08.66%	Standards & Poor's 400 Index (mid cap)
–14.95%	Russell 2000 Index (small cap)
–03.07%	NASDAQ Composite Index
–13.07%	US Core (stocks)
–01.36%	US Growth (stocks)
–16.28%	US Value (stocks)
–16.21%	MSCI EAFE Index – Int'l Developed Countries
–00.04%	MSCI EM Index – Int'l Emerging Markets Countries
+04.30%	COMEX Gold Trust
+03.85%	Dollar – Deutsche Bank US Dollar Index
–18.87%	OIL – S&P GSCI Crude Oil Index

Classic Diversified Global Asset Allocation Portfolio Model

You may use this hypothetical investment portfolio to compare your own performance to this globally diversified "buy and hold" strategy using broad based asset classes readily available to individual investors through index based exchange traded funds (ETF's).

2009 Year-to-Date Hypothetical Model Portfolio Returns:

100% Equity/0% Fixed Income –13.20%
90% Equity/10% Fixed Income –11.67%
80% Equity/20% Fixed Income –10.95%
70% Equity/30% Fixed Income –10.31%
60% Equity/40% Fixed Income –08.70%
50% Equity/50% Fixed Income –07.65%

We continue to believe a more active investment strategy will be necessary to successfully navigate the long-term bear market cycle we believe we've now entered, and that classic strategic asset allocation models will not be successful in the current environment. Furthermore a combination of macro and micro economic and financial analysis will be critical in making wise portfolio decisions. Protecting capital will be by far the most important objective in the coming years.

The index and benchmark returns listed above were reported by Morningstar, Inc. and are believed to be reliable, however no guaranty of their accuracy may be made.

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Background Information

- ✓ Jim Dobbs is a financial educator, consultant, and advisor who works with individuals and institutions around the country.
- ✓ Jim is a CERTIFIED FINANCIAL PLANNER™ professional who for the last eighteen years has been helping private clients achieve their financial goals and objectives.
- ✓ Jim also works with non-profit organizations such as universities and membership associations to help them achieve their organizational goals through strategic planning, curriculum development, and program delivery.
- ✓ Jim has taught or trained hundreds of financial services professionals through various universities, corporations, and associations.
- ✓ Jim has consulted, lectured, and/or directed programs at several prestigious universities including Wharton, The University of Chicago, Cal-Berkeley, The University of Texas, Southern Methodist University, and others.
- ✓ Jim received his B.B.A. from Baylor's Hankamer School of Business, earned a post-baccalaureate Award in Taxation from UCLA-Extension, and completed the Management Development for Entrepreneurs Program at UCLA's Anderson School of Management.

Dobbs Wealth Management Group, LLC

- ➢ Dobbs Wealth is an independent *fee-only* investment management firm.
- ➢ Dobbs Wealth was formed in 1998 as an investment advisory firm established under the regulations set forth by the State Securities Board of Texas.
- ➢ Dobbs Wealth's primary objectives are to protect and grow client investments.
- ➢ All managed money is held through third-party institutional custodians such as Charles Schwab & Co. Under no circumstance does Dobbs Wealth maintain custody of client funds or assets.
- ➢ Dobbs Wealth does not represent any other financial company nor does it sell any financial products.
- ➢ Dobbs Wealth only receives compensation (fees) directly from its clients.
- ➢ Dobbs Wealth embraces its fiduciary relationship to its clients and recognizes this as its primary professional responsibility.

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