S D Clifford Advisors, LLC

Investment Review and Outlook

October 9, 2009

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A review of major economic trends nationally and internationally and their impact on prudent investment strategies looking ahead.

Broad National and International Trends and investment implications

As our economy improves, the rest of the world will follow. Due to the size of our economy, other countries' growth usually exceed our growth rate. This factor tends to decrease the value of the dollar even as our economy strengthens over the longer term. Expect foreign investments to outperform US focused companies during the next recovery.

Separately, our government's massive spending and borrowing while preventing the collapse of the financial and automovite sectors also has the tendency to increase inflation and weaken the dollar down the road. Expect foreign investments, real estate, gold and other metals and commodities such as oil to rise in dollar terms over time. This trend also favors US exports especially of high-tech products and services.

The campaign promises of the Obama team suggested an increase in government regulation as well as taxes. All versions of Health Care reform as well as the Cap & Trade Climate Change bill and the proposed changes in union organizing rules tend to make for a more difficult business environment. An increasingly stalemated Congress makes it less likely taxes and regulations will change in ways that slow business innovation and expansion. This trend tends to favor economic recovery and stock prices generally.

Uncertainty as to what to expect from the Government also tends to make businesses reluctant to act in ways that would expand the economy. As Congress seems increasingly unable to cobble together majorities in both Houses to pass legislation, the percieved risks for business decline. These factors were a key part of the market low in March and the rebounds this spring. As Congress seems more likely to keep tax rates stable and less likely to intervene in the economy, businesses can invest with greater confindence. As confidence improves, investors will return to the markets driving prices towards their previous highs. In this enviroment, small and mid-cap stocks tend to out perform large cap stocks, broadly.

Government intervention through stimulus programs seldom come without hidden and unintended costs down the road. Under Nixon, in 1972, the Federal Reserve lowered interest rates pumping money into the economy allegedly preventing a recession and aiding his landslide victory. However, the increased supply of money led directly to the season of inflation during the Carter years. It persisted until the Fed, under Reagan, increased interest rates dramatically in a way that convinced the country inflation would be contained.

Thus, in spite of about $1 trillion in stimulus programs between the Bush and Obama administrations, confidence remains weak among consumers and investors as if they know the governement money is a short-term band-aid and not a cure for what ails the economy. This enviroment favors increased government spending in ways that distort consumer and commercial purchasing decisions in the short term. Oddly, this tends to aid those with the largest debt loads who can refinance as well as companies which strong balance sheets that don't. Those able to acquire government contracts will benefit until the stimulus funds end. For some, failure will be only postponed and made more severe. Be wary of companies with large short-term governemnt contracts, particularly defense companies and other contractors.

Fears regarding our financial markets remain grounded in the reality of much investment capital flowing through hedge funds and off-market assets such as derivitives and credit default swaps as well as mortgage-

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backed securities, among others. The lack of transparency in these assets increases the risks of an unintended dominoe effect such as occured last summer when the credit markets all but froze and the sluggishness that remains. This uncertainty keeps Treasury Notes and Bonds very popular as well as blue chip stocks with long dividend histories. This trend is sometimes known as a "flight to safety" as investors flock to investments that seem less risky or are at least more understandable. This trend favors large cap stocks with excellent balance sheets and dependable dividends.

International security issues remain centered around North Korea and Iran's nuclear ambitions. Russia tends to be a spoiler with whom partnerships never quite live up to their promise. China remains a growing, patient and quiet part of the world walking a delicate line balancing their self-interests with cooperation with the West. On the one hand, they allow North Korea to threaten others but then, they have bought trillions of our federal debt staving off an even worse financial crisis. World instability favors basic metals and commodities such as gold and oil.

Lower tensions internationally favors foreign stocks. The economies of China, India and Brazil should be part of any long-term investment strategy. Recent discoveries of massive new oil fields off the coasts of India and Brazil bode well for both as each could become self-sufficient within 10 years or so. Oil could still reach new highs before these supplies become available around 2020 as a world-wide recovery could again cause demand to exceed refining capacity. These trends favor investments in world-wide funds as well as country-specific mutual funds and exchange traded funds which also benefit from a declining dollar.

With the Gross National Product in decline and little prospects for rapid short-term expansion, value funds may easily out perform growth stocks until an expansion becomes more evident. This was more clearly the case in March and June, less so with the market's recovery in April and this summer.

Currently, with interest rates at record lows, expect long-term bonds to lose value as interest rates begin to rise in the next year or so. Thus, bond funds should be avoided with the exception of short and intermediate bonds.

Real estate values have fallen in tandem and can only rise over the next few years in advance of interest rates. Thus, carefully chosen real estate properties, home builders and property management firms that survive the downturn will do well.

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An Asset Allocation and Market Diversification Model

October 15, 2009

With broad trends that impact the economy and investment markets in mind, a prudent allocation of investable assets would begin as follows for porfolios with no need for regular cash withdrawals over the next five years:

	Range of weighting:	**Potential Annual Return over 3-5 years**
Large cap and blue chips.	15-25%	8.4-14%
Mid cap, growth and value	15-25%	6.5-13%
Small cap, growth and value	15-25%	4.0-14%
World & foreign funds	15-25%	4.0-20%
Gold, precious metals & mining	0-10%	1.0-25%
Real estate	0-20%	5.0-15%
Short Term Notes and Cash:	5-20%	0.0% to +2%
Mid term Notes and Bonds, 3-9 years:	0-5%	-2 % to +2%
10-30 Year Treasuries and bonds	0-5%	-8 % to +2%

Within these ranges, we recommend a selection of mutual funds and exchange traded funds that have matched or outperformed the broad market averages during the last bull market or over the last ten years.

Higher net worth households and experienced investors may also consider carefully screened stock portfolios designed to take advantage specific trends while eliminating mutual fund management fees as well as a broader range of exchange traded funds beyond the most common indexes tracked.

Long term bonds begin to make sense when the Federal Funds rate exceeds 4% and the stock market reaches new record highs. These two events seem unlikely to occur within the next two years.

As of early September, a correction of 5-10% seemed increasingly likely and seems to have occured between Sept. 23 and Oct 2 as the Dow Jones Average varied by about 6%. However, this risk increases as the market indexes repeatedly set new annual highs. This factor favors holding cash or selling investments that have outperformed the market this year.

If corporate earnings come in as expected, the market can rise somewhat higher but will be constrained due to sales generally being stagnant, year over year.

A longer and sustained bull market will be unlikely until unemployment stops declining, sales and services show steady growth along with restrained monetary policy and controls on governement spending. The long-term turnaround could easily be evident by early next summer but is by no means guaranteed.

Your specific goals, needs, preferences and sensibilities will determine which sectors to favor over others as there are excellent mutual funds and exchange traded funds likely to match or out perform the market during the recovery season that lies ahead.

Those who are more risk averse will want to emphsize large cap, blue chips and short-term bonds and treasury notes. Consider indexed annuities to limit downside risk at the expense of also limiting upside growth.

Those who are most nervous and hold little confidence in the open markets will need to consider fixed annuities to protect principal but at the risk of not keeping up with inflation in the next few years. Read the fine print before signing any contract.

Those with more patience will want to focus more on small cap, world, real estate and gold/precious metals.

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An All-Weather Investment Approach:

Our general investment portfolio management philosophy includes the following which we adapt for each person, account and goal as in each investor's best interests.

We almost always recommend:

1. Setting aside an emergency fund equal to 3 to 6 months of living expenses before considering long-term investments.
2. Reviewing employee benefits such as health insurance annually.
3. Annually reviewing allocation choices for 401K, 403b and other retirement plans as well as non-retirement investments.
4. Reviewing life insurance needs, wills, trusts and estate plans every five years or when a significant life event occurs such as a birth, adoption, death, graduation, retirement, marriage, divorce, significant change of employment or compensation, changing residence, starting or ending college for any household member as well as major health changes to name the most common.
5. Beginning a savings plan at an early age.
6. Earning more and spending less as well as saving for a rainy day.
7. Diversifying investments to take advantage of different positive trends world-wide.
8. Remembering financial planning succeeds with patience, persistence and flexible adaptation of goals and values to a changing environment.
9. For those whose investable assets are below $300,000, no-commission mutual funds and exchange-traded funds remain the simplest and soundest methods to achieve a diversified portfolio that can grow with time.
10. Nothing ventured, nothing gained.
11. **Plant good seed in good soil. Reap a better harvest. Share your harvest with those you love. ®**

Generally, we do not recommend:

1. Mortgage-backed securities or any funds secured by credit obligations as the risks are unknown.
2. Micro-cap stocks, penny stocks or IPO's or funds with such a focus due to a lack of dependable information and poor historical returns of most.
3. Commodities, futures or options except for well-qualified investors, generally with assets and net worth above $2,000,000.
4. Direct real estate investment except for qualified investors with appropriate due diligence and experience in the field.

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5. Municipal bonds except for who are reliably in the 35% federal tax bracket.

6. Individual stocks for portfolios below $250,000 without appropriate experience and qualifications.

7. Variable or fixed annuities unless the client's needs and preferences eliminate other opportunities as we earn our highest fees on these products through generous commissions.

8. Buying on margin except for short term cash flow management.

9. Initially investing in any security for less than five years unless personal circumstances and goals clearly suggest otherwise. While short and near term expectations will be weighed, no investments are ever recommended solely for their short-term potential for the next 3-12 months. In other words, we are investors, not traders. We follow trends, not fads. We buy on strength and quality not fleeting speculation.

10. Investing in stocks, mutual funds, exchange traded funds or bonds without first establishing an effective emergency fund and appropriate goal-setting including a review of income tax returns and all assets and liabilities and apparent trends.

11. Investing less than $5,000 or 1% of a portfolio in any one fund or stock due to the higher costs of ownership and administration issues of small investments.

12. CD's as they can rarely maintain their value against inflation.

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