



ELHOFF FINANCIAL COUNSELING

Interesting Facts:

MISSING THE BEST DAYS.

—The average total return for the S&P 500 over the last 25 years (i.e., 1984-2008) is +9.8% per year. If you Missed the 25 best percentage gains days in those 25 years (i.e. 25 days in total, not 25 days each year), your average total return falls to +3.39% per year. (Source: BTN Research).

TIME IS ON YOUR SIDE—

The split between “up” and “down” days for the S&P 500 over the last 50 years is 53% “up” and 47% “down”. The split is 58%/42% if the time period analyzed is months over the last 50 years, 63%/37% if the time period is quarters, 72%/28% if the time period is years, 76%/24% if the time period is 5 rolling years, and 88%/12% if the time period is 10 rolling years. The calculation was based upon the raw index value of the S&P 500 and thus would not include the impact of any reinvested dividends (Source: BTN Research).

THE NEXT YEAR—In the last 75 years (i.e., 1934-2008), the S&P 500 stock index has suffered total return losses of at least 20% in 4 different calendar years, the most recent was last year’s 37.0% decline. In the year after the 3 previous 20%+ tumbles, the index gained an average of +32% (Source: BTN Research).

NOT ON THE FIRST—One of President-elect Obama’s campaign pledges is to implement universal health care, an effort first undertaken by President Theodore Roosevelt more than

Bernard Madoff’s fraud made money(\$50 Billion) and trust disappears.

“How do I know you won’t steal my money?” that’s what folks want to know. These red flags clearly show how differently we operate-

1. Operating on a handshake—He was so nice that his relationship with many people was built on his handshake and smile rather than the proper due diligence associated with a high-level fund manager. Although many businesses operate on a handshake, our business does not. H. Beck, Inc. follows the proper due-diligence procedures. And are happy to follow the rules that are required.
2. Too good to be true—We and H. Beck adopt a cynical view when performing due diligence about investment strategies. We need to thoroughly understand the investment strategies used by managers and be able to explain them to you. And even if a manager is everything that he purports to be, we still live in the age of Enron and Bear Stearns—a time when anything can happen and probably will. For that reason alone, clients should diversify their investments among several strategies. Diversification may reduce some risks of investing. But does not insure against market losses.
3. No Independent custodian—An independent custodian helps safeguard an advisory firm’s assets and reports major activities performed by the advisory firm, providing an extra layer of security for the clients. Custody of the assets is usually done by a third party, but Madoff did all of this in-house.
4. Who is watching the hen house? - Madoff provided his own compliance (courtesy of Madoff’s brother and his niece), and it also enabled him to process all of his trades, which could be easily falsified. We and H. Beck are meticulous in meeting all compliance regulations that protect your best interests.
5. It’s all about the secret sauce—Madoff was very secretive about the process through which he created his returns. When people asked too many questions, they were asked to leave. We can provide transparency.
6. Where’s the beef? (Or: Show me the audits) - Although many wealthy individuals and foundations invested with Madoff, many institutional investors reviewed him and passed on Madoff. Why? Because he failed their due diligence when it came to accounting and compliance issues.

From a fundamental perspective there are some strong data investors should not ignore:

- Money Market Assets at 40% of NYSE Market Cap are at an all time high suggesting ample liquidity exists to send markets higher.
- The Normalized price of a stock relative to a stock’s earning(P/E ratio) of the S&P 500 is at 13.9 vs. 24.9 over the last 20 years and 17.2 since 1930.
- Historical forward returns from P/E ratios this low have averaged 28.5% for the subsequent two years.
- Historical 1 year returns on equities after bear market bottoms are 46% since 1926
- Foreign market P/E ratios are at half their long term average and a 20 year low.

Source:: Herb Morgan CIO Efficient Market Portfolios

Interesting Facts:

Than 100 years ago (Source: News-week)

OUT-OF-POCKET— Households pay 31% of total health care expenditures (e.g., prescription drugs, hospital care, physicians' costs, clinical services, nursing home care). The remaining 69% is paid by businesses, insurance companies and governments, (federal, state and local). The data is from calendar year 2007 (Source: Centers for Medicare & Medicaid Services).

TAX WORK— IRS audits of individuals and businesses resulted in the payment of \$1.1 billion of additional taxes per week in fiscal year 2008. 33 out of every 34 individual taxpayers making at least \$200,000 were not audited by the government (Source: Internal Revenue Service).

BY THE NUMBERS—The top 3 jobs in the USA are # 1, Mathematician; #2, actuary; and # 3, statistician. The rankings were based upon work environment, income potential, employment outlook, physical demands of the job and work-related stress. The worst job in the nation; lumberjack (Source: CareerCast.com).

WORKING IN WASHINGTON—Barack Obama becomes the 44th President of the United States. His new administration is responsible for 7,840 appointees to fill government jobs. 85% of those appointees do not require Senate confirmation. (Source: Rocky Mountain News).

SCANDAL— An article questioning Bernie Madoff's Investment strategy (titled "Don't Ask, Don't Tell") appeared in print on 5/07/01, 7 1/2 years before his Ponzi scheme was discovered. When asked about the investment policy that he utilized, Madoff replied "it's a proprietary strategy and I can't go into it in great detail" (Source: Barron's)

2009, Now what do we do? Unfortunately no one rings a bell, blows a horn or sounds a siren when markets hit their high or when they reach their bottom. That said, I think it is reasonable to believe the most intense parts of the economic and financial market downturns are moving behind us and, as a result, 2009 will be a better year. This newsletter contains forward looking statements that may or may not come true.

History has shown that when a crisis hits the market, it's also created opportunities for investors who have maintained focus on their long-term goals. Let's put the most recent crisis in perspective by comparing it to similar crises we've endured in the past.

Crisis	S&P Return Decline	S&P return Recovery
Oil Crisis and Recovery	-33.2% (1/1/72-10/4/74)	88.8% (10/4/74-12/31/76)
Severe Recession & Recovery	-6.1% (9/1/80-8/6/82)	65.2% (8/6/82-3/31/84)
Savings & Loan Crisis & Recovery	-21.7% (4/1/87-12/4/87)	68.6% (12/4/87- 12/31/89)
Accounting Scandals, 9/11 Attacks, Tech Bubble & Recovery	-38.3% (11/1/99-10/4/02)	102.8% (10/4/02-6/30/07)
The Credit Crunch	-33.8% (6/30/07-10/31/08)	?

Source: Ned Davis Research, 11/08

We are reviewing more **fixed income products** to include, TIPS (treasury inflation protected securities), versus CD's, money market, mortgage pools, annuities, real estate and leasing notes to mention a few.

Also, we are always reviewing "**alternative**" investments, as the 2008 performance of managed futures and non-traded REITS (real estate investment trust) were positive. Alternatives are an important part of portfolio design, but one must caution that too much is not good either as the Ford, Harvard and Yale endowments discovered in 2008.

While **future inflation** is the most likely result of more government spending and more government debt, it's not a sure thing. We won't face high future inflation, for instance, if the spending fails to stimulate the economy and demand. Right now, asset values and spending are falling so fast government spending can't increase fast enough to offset it.

The asset classes that brought all of our losses in 2008 may be the same ones that will get us back to where we were.

These articles were written by the individuals indicated and not intended to provide tax and legal advice. Investors should consult their legal or tax advisor for advice and information concerning their particular circumstances. All information is believed to be from reliable sources; however we make no representation as to its completeness or accuracy

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