

1229 Lake Plaza Drive
Colorado Springs, CO 80906

Phone: 719-576-4500
Fax: 719-576-2302

www.SullivanInternet.com

SULLIVAN  ASSOCIATES

December 2008

A REGISTERED INVESTMENT ADVISOR

Special Market Update

There can be little doubt we are in uncharted territory in both economic and market terms. Although many pundits are talking about a new Great Depression, we remain skeptical of comments predicting an economic apocalypse. We do believe we may be in for two to four years of economic and market doldrums. This will continue to be a period of uncertainty and volatility, but as one person put it, "There is only one end of the world, and this isn't it."

We have finally seen a little bit of good news in that oil prices are down, meaning we are now paying less than two dollars for a gallon of gas. During the last week of November, we also saw five consecutive days of gains which we have not seen for a while; however, the Dow Jones Industrial Average still fell a little over 5% for the month of November, and is still down 33.4% for the year. Most other indexes are down further, with the S&P 500 down 39%, the Russell 2000 Index down 38.2%, and the MSCI EAFE down 48.2%, year-to-date. Although there is some good news on the oil front and U.S. officials are pumping billions of dollars into the economy trying to get it turned around, we still have a ways to go. The third quarter GDP was revised downward as home sales and prices continued to fall. While bargain hunters were out in force on Black Friday, literally breaking down doors and trampling one employee to death, the early indications are that buyers are being cautious and this holiday season may not go well for retailers.

We have looked for the bottom of this market all year and held expectations that we would see a turnaround, but we have continued to receive bad news, causing us to break below the previous lows. At this time, we are again hopeful that we may have established a bottom in this market. We now need to see if that low holds for what we hope will be a reprieve over the next several months as the bailout and stimulus packages take hold. Even as we are hopeful for this reprieve in the markets, we still feel that we are facing what may end up being a long and protracted period of time for financial risks that could take several

different courses, including inflation, deflation, recession, and increased taxes. Certainly, it is not solely the Federal government that will be looking to increase our taxes, as our local government is now taxing cat owners via cat licensing fees. It is also interesting to note that when the local tax increase failed in the last election, our city fathers in their infinite wisdom and as a means to help with the 2009 budget ended up taking a mortgage on one of the city-owned buildings. This seems somewhat short-sighted, but then again, it has been the American way that when you do not have enough money to spend, you simply borrow it.

As bad as things sound, look, and feel at this time, and as much as we are concerned about what may happen over the next few years, we would not want to bet against the American economy over the long-term. If you have a five to ten year investment horizon, we believe that continuing to add to quality investments over this longer period of time should prove to be rewarding as you are buying more shares at these lower prices. For those with cash in their possession currently or in the near future, there are exceptionally good buying opportunities which we have not seen for decades. Therefore, while we do have concerns over the short-term, we all need to keep the long-term in mind, and we would expect our economy to come back. While many consider this a crisis, it should be remembered that the Chinese symbol for crisis is the same symbol for danger plus opportunity. Accordingly, the financial crisis we are going through also provides opportunities as we go forward, especially over the next five to ten years.

The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing the stocks of 30 companies maintained and reviewed by the editors of the Wall Street Journal. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Russell 2000 Index measures the performance of the small-cap segment of U.S. equities. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The MSCI EAFE is a stock market index of foreign stocks from 21 developed countries, excluding the U.S. and Canada.

Sullivan & Associates Staff

Patrick Sullivan

Financial Advisor
patrick.sullivan@raymondjames.com

Randy Halfpop

Financial Advisor
randy.halfpop@raymondjames.com

Maryann Fulop

Client Service Specialist
maryann.fulop@raymondjames.com

Jane Jacobs

Office Manager
jane.jacobs@raymondjames.com

Emily Marchi

Administrative Assistant
emily.marchi@raymondjames.com

Kevin Sullivan

Financial Advisor
kevin.sullivan@raymondjames.com

Jennifer Malmstrom

Client Service Specialist
jennifer.malmstrom@raymondjames.com

Anthony Weber

Client Service Specialist
anthony.weber@raymondjames.com

Nancy Polwort

Database Administrator
nancy.polwort@raymondjames.com

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