



Finkle, Lewis & Kittell

WEALTH ADVISORS OF

RAYMOND JAMES®

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Member New York Stock Exchange/SIPC

H. Michael Finkle
Senior Vice President, Investments

Barbara L. Lewis, WMS
Vice President, Investments
Resident Manager

Chris A. Kittell, CFP®
Associate Vice President, Investments

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FLK Global Macro Hedge Views Going Forward Toward 2010 and Beyond

When employing alternative strategies, one needs to look at the global macro environment to decide if some truly alternative strategies have any real merit, and make sure to look out of the windshield not into the rear view mirror. This coupled with a preference to use lower correlated assets to the major asset classes of stocks and bonds can work effectively, but as we have recently experienced, a four standard deviation move in stocks can wipe out almost every attempt at normal asset diversification, so travel and plan accordingly.

That said, it would seem the current global macro scene is dominated by deflationary pressures as what we refer to as **the great deleveraging** plays out. We do not know if this is a two or three act play or an even longer event. For all the talk about 'taking the bad assets off of the books of the banks,' really nothing has been done so far on that front. Instead, capital injections of government money have been forced on to balance sheets and the massive purchase of various securities by the Fed and treasury has rolled forward in what we refer to as **reflation**, as unprecedented quantitative monetary easing takes place. If one looked down from 30,000 feet, it would seem very ironic that driving real interest rates to zero and employing an all out monetary and fiscal re-inflation campaign was the right medicine for what ails the economic body. It is sort of like giving the addict more of the addictive drug, but we see it as a massive attempt by government to fill in the demand lost by households and companies who have hunkered down and shrunk demand for nearly everything while they fight to stay afloat. It is becoming obvious that today's incredible interest rate spreads have allowed lenders to start to earn back the capital lost in the derivatives, sub prime and leverage frenzy, but earning your way back will take a very long time as balance sheets are repaired. It is therefore most likely that deflationary pressures will be with us for some time but we cannot help but be worried that the massive governmental money infusion will eventually fuel inflation as government is much better at throwing a credit and spending party than sending the revelers home and cleaning up the party mess left behind. (If you doubt this thesis, one could argue that a similar but smaller move by government following the two blow event of the dot com bubble burst followed by 9-11, helped create the credit bubble that we just witnessed imploding).

Following this thinking further, we suspect that many investors need to dedicate some money toward hedging their portfolios against several risks, namely inflationary pressures building eventually, a weaker dollar as deflationary pressures ebb and eventually rising nominal interest rates.

How can we do that? We recommend the following ideas for consideration and possible implementation.

1) Investments in energy could pay off as economic recovery eventually boosts demand and prices.

At least in the past, a weaker dollar has also led to higher oil prices so this could be a two edged play, to exploit eventually rising demand and a weaker \$. There are a number of specific ways to play this and probably more than one approach is desirable, such as oil and gas exchange traded funds (ETF's), master limited partnerships (MLP's), broader commodity ETF's or actively traded commodity funds, energy funds etc.

2) Investments in other various natural resources could work for the same reasons used above.

This would include metals and timber. We are particularly intrigued by timber real estate investment trusts (REIT's) or MLP's as this unique asset has not only been hammered by general economic deflation but by the collapse of demand from the home construction implosion as well. It is also true that trees require rain and sunshine to grow and those resources are available for free. Finding established entities with large established forests and land holdings is essential as a low initial asset cost basis is critical as one cannot simply crank up a factory and produce large growth trees for logs or create valuable forested land to sell to other investors.

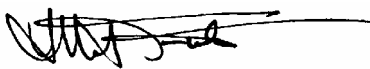
3) Various ETF's or funds can be used to gain access to other currencies or other currency denominated assets

like foreign sovereign debt to hedge against a weaker dollar. There are even ETF's to track a rising or falling \$. Additionally there are ETF's to track rising or falling interest rates.

4) Finally, bearish ETF's betting on a weaker dollar, lower bond prices and higher yields can be employed.

The challenge is to use the various ideas presented here and others, to first develop a cohesive strategy and then to decide how much to allocate to this strategy. We are obviously available to assist through all phases of conception, implementation and monitoring.

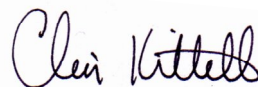
Sincerely,



H. Michael Finkle
Senior Vice President, Investments



Barbara L. Lewis, WMS
Vice President, Investments
Resident Manager



Chris A. Kittell, CFP®
Associate Vice President, Investments

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