



Stanton & Castleton, Inc.

An independent firm

Let's Review: Our Monthly Newsletter.....03/01/09

This month:

In times like these we understand our observations and insights can start to sound redundant. Studying the reasoning behind investment behavior during extreme periods does not change the fact that many asset classes are down over 50%! Our relative performances, while outperforming the benchmarks, are still into double digit declines in all but our most conservative portfolios. This is when our instinct for self-preservation and emotions collide to produce fear. We just want to do something...anything.

In nature, we learn that when confronted by a wild predator (say a bear) we should first try to appear larger and slowly back away...if this is not working yell and throw rocks to show you are dangerous...but if all else fails fight for your life if you are attacked. The last thing you want to do is to run for your life...you are now confirmed prey, and slow prey at that. Our nature analogy is a not very subtle attempt to draw you into rational thought when it comes to volatile investments during “once every 100 year” markets. We have always advised clients on the benefits of diversity when investing and its benefits in risk management.

In the extreme, even well balanced portfolios can behave badly. We are aware of the real effects lower account values have on long term income, near term spending along with current and future retirement goals. Our position is this period is not unlike past extremes and that during those times the markets did recover and moved higher over time.

Like you, we hear the “New Experts” now touting what should be done or how it's clear what should not have been done. It is easy to have 20–20 vision in hindsight. The resurgence of Gold as the “only” safe asset, completely ignores its great historical volatility, complete lack of income and the fact that over the long term both stocks and real estate have outperformed. Even so, we hear many advising now is the time to sell

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equities, real estate, corporate and municipal bonds in favor of all cash (at near 0% yields) short term government bonds (again near 0% yields) insured CD's (with the same institutions that are receiving TARP money) and gold. Let's look at Gold's recent price movement, since 2001 Gold has over tripled in value (In that same period oil went up 7 fold before falling 75%);

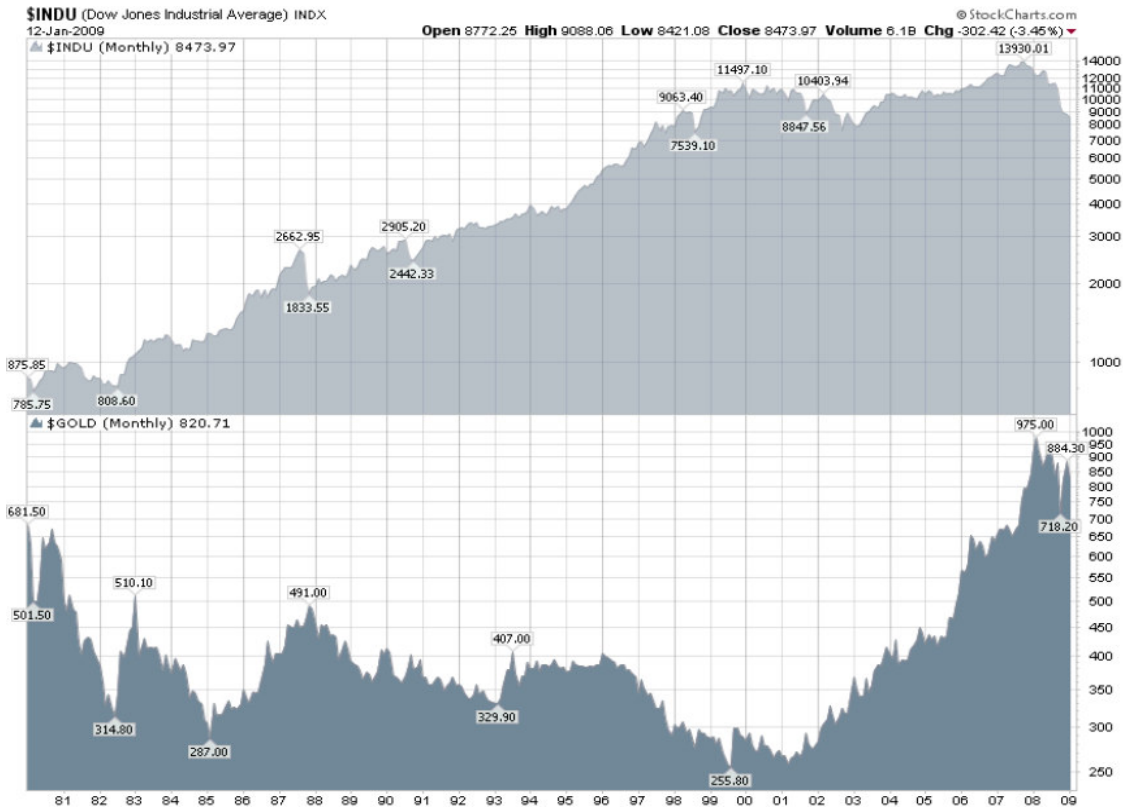


Now let's look at the yield on the 3 month T-Bills, a safe cash heaven, today (03-03-2009) the yield closed @ .265% annualized. (This is up from a .005% yield on 12-22-2008) This means if you placed \$100,000.00 into a 3 month T-Bill today you would earn approximately \$66.25 over that period...not a great return; however, it will not lose principal. Our point is that in racing from stocks and bonds into gold and cash you may not be reducing the investment risk at all, merely shifting risk to what is holding up now rather than investing in what has the best value today. We do have exposure to gold and T-Bills in our portfolios along with other asset classes, but we are not concentrated in any single area.

If we accept the premise that today's current environment will be the new permanent climate for all investments perhaps this strategy would be ideal. However, it is far more likely (in our opinion) that the long term market forces will reestablish their normal relationships. When has concentrated investing in one or two asset classes ever been a good long term plan. To do this you will have to be skilled at market timing and be prepared to make difficult trading decisions. In our experience we have seen few traders succeed over the long haul. Below is the DJIN (Dow Jones Industrial Averages) and

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Gold since 1980 thru 1-12-2009. While the last 6 months investing in stocks has been hard to stomach, you can see there have been a lot more “rides” investing in Gold. Would you have made all the correct timing moves?



We have seen the risk of putting your entire 401k funds in the company stock or missing out on the long term market growth in favor of zero volatility. In our opinion, to adopt such a strategy at this time can only be considered if you have a plan and proven process to determine when you would reinvest. Next you would need to have demonstrated by past decisions the skill to time market turns. The reality is most investors do not possess these skills and those that claim to are often wrong just when it matters most. From the market high on 10-10-2007 to 08-28-2008 we appeared to be experiencing a normal correction. The S&P 500 was down 16.75% and our relative performance was outstanding. In the ensuing six months the S&P 500 fell another 45%...a “once in 100 years” occurrence.

What now? Our process:

- 1) Try and remain calm
- 2) Stay diversified
- 3) Rebalance with some tactical adjustments into the bond market.
- 4) Avoid “investing” for a zero rate of return...do not become prey.

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1151 Dove St., Suite #115, Newport Beach, CA 92660 / 949.975.0955 / 877.975.0955 / www.stantoncastleton.com
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We will be addressing these issues with you in the coming days with the goal of positioning ourselves for a recovery while trying to manage risk.

Bob Stanton, Branch manager / Registered Principal:

Time for a family update...my nephews Austin & Andrew are both in Spring Training with their teams (NY Yankees & LA Angles) and the dream lives! Ethan and Cole are in HS and Jr. High Baseball so we are seeing a LOT of ball games now! Jordan was made a Squad Leader and it appears he will progress towards his goal of Marine Special Forces. Ryan is working now at the happiest place on earth...Disneyland! All in all the good outweighs any bad....

Ron Castleton, Branch manager / Registered Principal:

Sunny & I had a chance to take Ari & a friend up to Mountain High in Wrightwood for a day of skiing & snowboarding. It really was a beautiful day and we all had a great, if tiring time. Of course, we the parents skied while the kids were boarding. In fact I observed there were very few younger people skiers—Apparently skiing is just another reminder that I am becoming a member of the “old fossil” group. All in all, it was a great way to spend a day and best of all, it’s an easy drive; about an hour from Irvine to the slopes!

This month “Financial Topic”: One more cartoon! No room, have to have disclaimers!

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Benjamin Graham

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