M.K. BROWN AND ASSOCIATES

January 23, 2009

For investors, 2008 was a once-in-a-life –time train wreck. The year was arguably the most painful in modern investment history, and the worst year for the U.S. Sock Market since 1931. We recognized and wrote about the possibility of an extremely negative economic scenario in our analysis, but we initially believed the probability was low. Although we recognized the severity of what was going on sooner than many, in hindsight we wish we had made more aggressive moves earlier on to help preserve our client's capital. The year was without a doubt the most difficult experience in our 25 year history. Almost every asset class was in the red for the year, with many deeply underwater, giving investors almost no place to hide. Government bonds and some alternative products were one of the few exceptions.

The events of 2008 required a willingness to view the economic risks and possible outcomes through a more extreme lens, one that is not limited by the frame of reference of today's investment professionals. The rapid deteriorating economy combined with investor behavior that was often disconnected from fundamentals made investment decisions extremely challenging during the later half of the year. We recognize that much of the stock markets decline was justified by the deterioration in longer-term economic fundamentals, and therefore we have recalibrated the levels at which we would view stocks as representing a compelling opportunity. We believe we now have a very well-informed understanding of the range of possible outcomes and that our process will allow us to make sensible decisions that will appropriately balance risk and return.

With consumers forced to pay down debt and increase savings, we believe it is likely that we will see a lengthy and deep recession followed by a weaker-than-normal recovery. While we can expect to see many more months of bad news, the question we must ask is not just how weak the economy and corporate earnings will be, but how much weakness is currently reflected in the prices of stocks and other asset classes? In weighing the evidence, we are not convinced that stocks are at highly compelling valuation levels, or that the stock market low in late November will be the eventual bottom of the market, as selling by hedge funds and others may not be quite done. With that said, we believe that financial assets have priced in enough damage that sustained losses over the intermediate and long term periods are now very unlikely and returns over those time horizons are likely to be decent.

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While we expect satisfactory returns from equity markets in the coming years, we also believe that investment opportunities abound in portions of the bond market. Corporate, municipal and high yield bonds ***** all appear good and in some cases great values. Other investment opportunities are also likely to arise in the coming months, as they have already in recent months. For example; in recent months we have increased tactical positions in corporate bonds, and in managed futures, an alternative investment ****** strategy. We are also evaluating the opportunities in municipal bonds as a complement to our fixed income portion of the portfolio. At present the 20 year municipal bond yield averages 5.4% - equal to an 8.3% pre-tax yield at a 35% tax bracket.

We have found that very difficult market environments, like we are seeing now, almost always create compelling opportunities that can ultimately reward skilled and disciplined active investment management. While we know that past performance can't be relied on as a predictor of future performance, we do believe that dislocated markets create great opportunities for tactical assets allocation moves. In addition, we believe that similar opportunities are created as a stock-picking level, as has been the case coming out of negative environments in the past.

Final Thoughts:

We believe that at some point in the future we will be able to look back and see that our commitment to doing what we believe is right for our clients during this time period led to good long-term decisions. The investment business is stimulating, fascinating and humbling, and has been good to M.K. Brown & Associates in many ways. It is also a challenging business on multiple levels. For example, there are times (not often) when what we believe is right for our clients is at odds with what they believe. At times like these our discipline is an important part of our value added and what we are paid for. We are fortunate to have a great group of clients, who have been amazingly supportive and confident in our abilities in a year in which the markets were uniquely challenging and our performance was disappointing. We believe that this confidence is the result of years of hard work, mostly good decisions and results, along with honest thinking and communication.

As we look back on 2008 we will not forget that we stumbled by not adjusting our equity valuation analysis more aggressively earlier in the year and as the credit crisis intensified in September. This would have led us to reduce exposure in our portfolios. While we maintain primary focus on the long-term, we are now sensitive to short-term risk given the levels of losses already seen. For this reason we will be more demanding in our requirements for any opportunity driven tactical moves and will be more cautious than usual about establishing an equity overweight, especially given the compelling alternatives available at lower risk (such as corporate bonds).

**** High yield bonds are not suitable for all investors. When appropriate, these bonds should only comprise a modest portion of your portfolio.***

***** Alternative investments are available only to those who meet specific suitability requirements, including minimum net worth tests. Please review any offering materials carefully, and consult with your tax advisor or accountant prior to investing. There are special risks involved with alternative investments, including investment strategies, and different regulatory and reporting requirements. There can be no assurance that any investment will meet its performance objective. Futures trading is speculative, leveraged, and involves substantial risks***.

This period has also led to a lot of reflection. In the late 1990's and 2000, investors were seduced by very high returns and we as a firm temporarily suffered by not playing the

Tech bubble (and lost more clients during that period than in the rest of our 25 years combined) before going on to enjoying a very strong multi year run of out performance. Looking back on the first quarter of 2000 we can now say that it may turn out to have been the worst and most risky entry point into the stock market in many decades, and it was a classic example of what happens to investor psychology after a nearly two-decade bull market. Now nine years later, with stocks at far lower prices, investors care only about risk – the psychology works in reverse. These swings in investor psychology can work against us as investment professionals looking to act in the best interest of clients. We do what we believe is right for our clients regardless of the near-term consequences to our business. We view it as our obligation to our clients and believe that even if our decisions don't work out in the near-term, as is often the case, if we get our analysis correct and maintain discipline we are paid to provide, in the long run both we and our clients will benefit.

The year 2008 was the first time we ever underperformed in a down market year. We are stung by this experience. However, we have used it to question ourselves and learn how we can be better – something that we are always striving to do. This process allowed us to identify areas for improvements in some of our assets class work and models. Most of this work has been completed while some is still in progress. We are excited about our enhanced asset class models and improvements to our valuation framework and believe they will further sharpen our asset-class decision making. We know that 2009 and beyond will remain challenging but we believe we are well equipped to navigate treacherous waters. We also believe that financial assets have priced in enough damage so that sustained losses over multi year periods are now very unlikely.

We remain strongly committed to focusing everything we do on rewarding you for your confidence.

Best regards,

Martin K. "Bo" Brown, CFP®,
Certified Investment Management Analyst®
Financial Consultant

Personal

I am less than enthusiastic when it comes to the holidays (outdoor flag at home reads "Bah, Humbug"). I suppose it has something to do with all that work for just one day. I do admit, however, it is fun when all the family comes together, even just for a few hours. Steffen flew in from Boise, Idaho, but left soon after to Chicago, then to England, both places to visit "a friend". Elizabeth & Eric moved from Springboro to Oakwood, no doubt to be closer to work. Anne was on school break and chilling out before school starts the beginning of January. The Young family drove up from Orlando. The grandchildren, Piper, Tatum and Bowan were the fun part, nothing broken – just a mess.

Office News

Financial Industry Regulatory Authority (FINRA)
(800) 289-9999

Security & Exchange Commission
(202) 942-7040

State of Ohio
(800) 788-1194

Certified Financial Planner Board of Standards
(800) 487-1497

The above numbers are very important. If you or your friends and co-workers have brokerage accounts and/or working with a financial advisor, please check their credentials by calling the above agencies. Fraud/ Ponzi games are on the increase.

Also, for those of you who need weekly market updates, check out our web-site: mkbrown.com. Click on Market View, then to Weekly Market Snapshot.

Bo's quote for the Quarter …

So first of all let me assert my firm
Belief that the only thing we have
To fear is fear itself…

Franklin D. Roosevelt

Bo's thought for the Quarter …

The game of life is the game of boomerangs. Our thoughts, deeds and words return to us sooner or later, with astounding accuracy.

Florence Scovel Shinn

Just for Laughs …

Will this be cash or consumer debt?

Happy, Happy Birthday!

January Birthdays

Carolyn Adams	**01/05**	**Robert Fisher**	**01/06**
Richard Cruder	**01/06**	**John Wallach**	**01/06**
Walter Caton	**01/06**	**Peggy Nagle**	**01/08**
Peggy Bockhorn	**01/09**	**Gloria Folkerth**	**01/09**
Linda Hobbs	**01/11**	**Kathleen Gooden**	**01/11**
Mary Ryan	**01/15**	**Francis Cortez**	**01/16**
Melissa Monroe	**01/16**	**Darlene Meehan**	**01/17**
Richard Raterman	**01/17**	**Donald Parrott**	**01/18**
Michael Wright	**01/21**	**Helen Brown**	**01/21**
Kurt Eyring	**01/22**	**Jonathan Bravo**	**01/22**

January Birthday's Continued….

Isabel Schaffer	**01/23**	**Michael Kelly**	**01/26**
Jerri Parrott	**01/27**	**James Swyler**	**01/27**
Frank Palazzo	**01/28**	**William Hovey**	**01/29**
Candace Barnes	**01/29**	**David Bafford**	**01/29**
Gayle Jewett	**01/29**		

February Birthdays

Richard Mount	**02/02**	**Alison Morrow**	**01/04**
John Chandler	**02/04**	**Timothy Mannix**	**02/06**
Coy Turner	**02/07**	**James Abbott**	**02/07**
Ruth Dane	**02/10**	**Eugene Winglewich**	**02/10**
Donald Gillespie	**02/10**	**John Borchers**	**02/11**
Cornelius Nantz	**02/12**	**Thomas Obringer**	**02/12**
Myron Lakes	**02/14**	**Catherine Wilker**	**02/15**
Sharon Wing	**02/16**	**Royce Terrell**	**02/17**
Michael Good	**02/17**	**Jack Frillman**	**02/18**
Patricia McMahon	**02/20**	**Jack Dawson**	**02/23**
Robert Provolish	**02/23**	**Richard Flinn**	**02/24**
Judith Bockhorn	**02/25**	**Martha McGillvary**	**02/25**
Jacquelyn Paxson	**02/25**	**Deborah Lee**	**02/26**
Angela Wardroper	**02/27**		

March Birthdays

Martha Bravo	**03/03**	**Karen Debanto**	**03/05**
Mary Hovey	**03/07**	**Daniel Baker**	**03/07**
Jennifer Kawaja	**03/07**	**David McGraw**	**03/08**
Thomasine Provolish	**03/11**	**Michael Kirsch**	**03/12**
Patricia Wood	**03/14**	**Eugene McMahon**	**03/14**
Conrad Perry	**03/15**	**Madie Tillman**	**03/15**
Donald Arnett	**03/16**	**Lawrence Curk**	**03/16**
Marla Flinn	**03/19**	**Richard Wood**	**03/19**
Lindsay Morrow	**03/20**	**Janice Obringer**	**03/21**
Donald Spangler	**03/21**	**Barbara Prim**	**03/22**
Janice Seredich	**03/22**	**Adrienne Benson**	**03/23**
James Fox	**03/24**	**Louann Lewis**	**03/24**
James Larkin	**03/25**	**Donald Hobbs**	**03/26**
Myra Manderfield	**03/27**	**Donald Zimmerman**	**03/30**
Donnie Orlowski	**03/31**	**Douglas Yetter**	**03/31**

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