



Defining QualitySM

2009 OUTLOOK FOR FIXED INCOME - WHAT SHOULD WE EXPECT?

Investors in fixed income need to be more aware of risk than normal times would require. These are clearly not normal times. If it were not for the heroic actions taken by the Federal Reserve and the U.S. Treasury we would have expected more bank failures among major institutions. Had the measures now in place been available to Bear Stearns, Lehman Brothers and Wachovia, it is possible they would not have failed.

More than ever fixed income investors must be vigilant to avoid buying too low yields resulting from fear as well as buying too high yields stemming from their greed.

To be avoided are excessive reserves held in U.S. Treasury securities. The demand on the part of some investors requiring maximum liquidity has caused Treasury yields in some cases to plunge to rates less than 0%. Consider the following yields posted during the day on Monday, January 5th.

U.S. Treasuries			AAA Rated Municipal Bonds	
3-Month	4/2/2009	0.08%		
6-Month	7/2/2009	0.28%		
12-Month	12/17/2009	0.39%		
2-Year	12/31/2010	0.80%	2-Year	1.72%
3-Year	12/15/2011	1.08%		
5-Year	12/31/2013	1.68%	5-Year	2.49%
10-Year	11/15/2018	2.46%	10-Year	3.84%
30-Year	5/15/2038	2.90%	30-Year	5.40%

Clearly taxable and even non-taxable investors can achieve higher returns in highest quality tax exempt securities. The current market is an anomaly driven by excessive fear. For those who must have maximum liquidity, they do not have much choice except to invest in U.S. Treasuries. However, most investors are advised to buy high quality tax free securities.

As a result, Curran is buying tax free securities for most taxable accounts and in non-taxable accounts we are buying CDs. CD rates currently available are ranging from 1% to as high as 3.6%.

The major risk for fixed income is inflation. While there are no current indications inflation is a problem, the massive infusions of credit by the Federal Reserve, U.S. Treasury and Congress are very likely to cause inflation sooner than later.

To avoid the risk of inflation in fixed income portfolios, investors are urged to maintain high quality and limit maturities to no more than five years and preferably three years or less. Extending maturities and owning lower quality is likely to lead to declining fixed income portfolio values as markets take seriously the inflation threat. **Avoid low quality and maturities longer than three years.**

STOCK MARKET

We wrote on December 11, 2008:

Expect higher stocks prices. The bear market bottom appears to have been November 21 when the S&P 500 touched an intraday low of 741. As of December 11 the S&P 500 is about 900 or about 21% higher.

On January 5th, the S&P 500 is about 931 or 5% higher than December 11th and approximately 26% higher than November 21st.

Each time I hear a financial professional say they are waiting for news to get better, I cringe with frustration. The one thing we should all know from the history of the stock market is: **When the news is better the market will already be much higher.**

Our high quality strategy continues unabated. We buy and hold the highest quality equities and the highest quality shorter term fixed income securities. Because U.S. Treasury bills, notes and bonds are yielding so little we are now buying tax exempt securities in taxable accounts and CDs in taxable accounts.

Our outlook for the economy continues to be cautious, but optimistic. We believe a recovery will be underway by the 4th quarter of 2009. Equity investors should be holding and buying highest quality stocks while fixed income investors should be reducing their exposure to U.S. Treasuries while increasing commitments to tax exempts and CDs.

A handwritten signature in cursive script that reads "Tom".

The comments above are provided as a general market overview and should not be considered investment advice or predictive of any future market performance. Information is derived from sources believed to be reliable; however Curran Investment Management cannot guarantee its accuracy.