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Facing Reality

as of Friday January 9th, 2009, the Dow closed at 8,599

On October 15th, 2008, the Dow Jones Industrial Average (DJIA) closed at 8,578 which is approximately the same as the current stock market valuation of 8,599. During the first two weeks of October, the DJIA dropped 21% and since then – while extremely volatile – has gone sideways. During that sideways period, the DJIA went from a high of 9,625 (November 4th) to a low of 7,552 (November 20th). While the financial loss is damaging to our expectations and objectives, we view this sideways movement as positive and believe there is some semblance of stabilization forming. Our hope is stabilization will help re-new investor's confidence in the stock markets for long-term investing but we also realize the stock market listens to no one and provides no guarantees.

Every investor has experienced a significant negative market value adjustment during the past calendar quarter and year. However, having a lot of company doesn't take away from the financial pain of this period which must be factored into everyone's short-term and longer-term financial plans. It is important to note that we are in the business of risk management, not risk avoidance.

Most periods typically have had more safe havens for managers to consider than the past year where the only winners were those in US Government securities, fixed annuities or CD's, segments which typically do not offer sufficient or long-term growth in value. This downturn has been pervasive, affecting stocks, corporate bonds, energy, commodities, etc. Many intelligent, cautious and well-known investment managers underestimated the severity of this financial crisis but we also realize they are not market timers who make drastic market moves to avoid market downturns.

Our world is economically more connected than it has ever been in the past so the current recession is really a worldwide recession, probably the first ever worldwide recession. The economic news continues to report a very bleak situation. One of today's Wall Street Journal headlines stated, "Yearly Job Loss Worst Since 1945." There's been a lot of news comparing the current period to prior financially devastating periods or "Worst News Since The Depression" but as James Rothenberg, Chairman of the Capital Research and Management Company stated in his letter to shareholders, "We have been here before and we have always recovered and eventually enjoyed new periods of prosperity. The U.S. and world economies are resilient, and that has not changed."

We anticipate the worldwide economic news to be bad for some time before we start to see a slow recovery forming. However, with the stock market as a predictor of the economy, the expectation is the stock market could start its recovery up to six months in advance of the economic recovery.

When many recognized U.S. leaders were recently given the opportunity to provide advice to President-elect Barack Obama, it was the advice of the Reverend Billy Graham that resonated most with me and the serious role we assume in assisting investors with the management of their financial resources. His advice was, "Act Justly and Walk Humbly." This is good advice for all times, but especially now as we deal in a world of uncertainties. We want you to know we seek to provide the best guidance we can in assisting you in the management of your financial resources. While we cannot predict, nor can we be perfect, we will do our best to lead with this advice.