

PRAETORIANSM GUARD

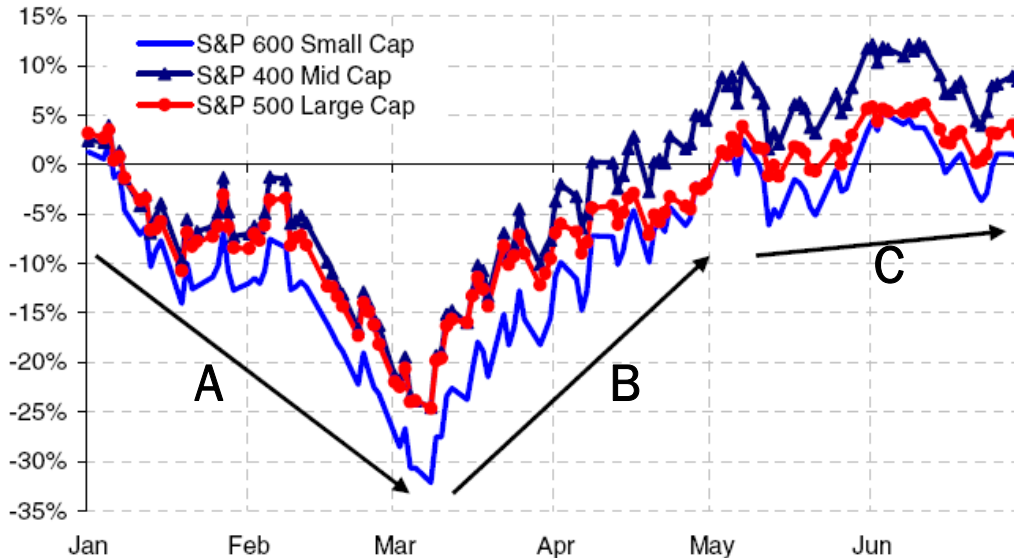


CLIENT NEWSLETTER
JULY 2009

2009 YEAR TO DATE MARKET COMMENTARY

The end of 2008 saw a strong rise from the November 2008 market lows thru New Year's, but the hope for a sustained rally quickly disappeared in the brutal 6 week period from President Obama's Inauguration thru March 9th (labeled "A" on the chart below). We believe the market's low (as measured by the S&P 500) of 682 points on March 5th will be the low point for the year.

S&P 500, 400, and 600, June 30, 2009 YTD

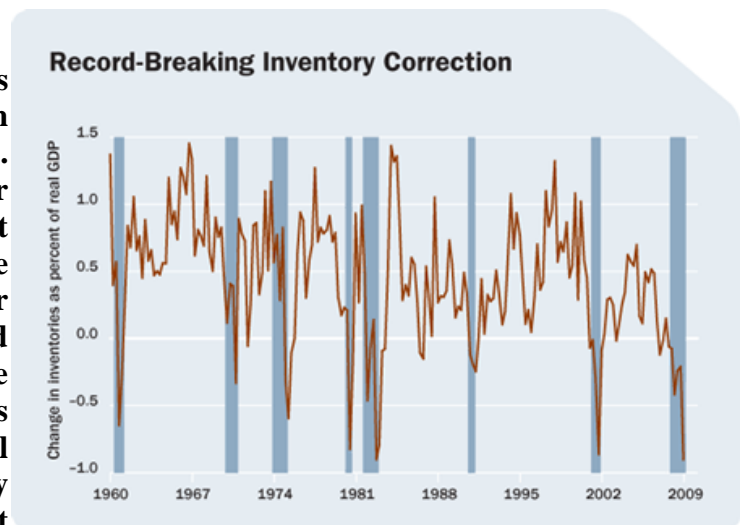


Source: Credit Suisse Quantitative Equity Research.

This bruising, panic driven decline was followed by a significant rise from March 9th to June 12th, when the S&P 500 closed at 946, a gain of 38.7% in 3 months (labeled "B"). We are now in the third phase, consolidation (labeled "C").

The violent transition during the two periods (A and B) confirmed the need to be invested in the markets even when your stomach says, "I can't take it anymore." No one has the ability to identify these turning points until well after they have occurred.

We believe the current period ("C" on the chart), is likely to last until early in the 4th quarter of 2009 when there is clearer indication of the course of the economy. As of this writing, we are beginning earnings season for the 2nd quarter and the talking heads will highlight who "meets or exceeds expectations." However, the real focus point must be on the company forecasts for the next few quarters. Businesses have liquidated inventories at an extraordinary rate (you may recall we highlighted this as one of the key economic indicators in our January Newsletter). These inventories will have to be replenished, which will begin to employ excess capacity, and slowly lead to unemployment topping out.



Source: Bureau of Economic Analysis, FactSet, National Bureau of Economic Research, as of March 31, 2009. Blue-shaded areas indicate periods of recession.

PRESIDENT'S COMMENTARY



Dick Hewitt

I want to begin with expressing our gratitude to our client families during the tumultuous last eighteen months. As you know, we don't chase fads or change our philosophy because markets and economies are in challenging times. This long-term perspective will be rewarded and we deeply appreciate your confidence in our team.

We recently learned that our commitment to excellent service has been recognized by Goldline Research, an independent consumer evaluation firm. Praetorian Guard was selected as one of the Leading Providers of Wealth Management Services in Northern California. *Forbes Magazine's* August 23rd issue will include a page highlighting our selection.

Being chosen for this honor makes us even more committed to giving you our best effort, advice, and analysis on the broad range of financial topics where you have questions or concerns.

IS RUNAWAY INFLATION IN THE PICTURE?

The late 1970s saw many things all of us hope to never see again. Among these are the 8-Track, the Leisure Suit, and stagflation. We don't believe we are in significant danger of runaway inflation in the next few years for several reasons.

First, the latter half of the 1970s saw a world very much divided and the ability of firms to shift production quickly (if at all) was limited. Since the end of the Cold War, the continuing benefits of globalization have witnessed the opening of labor and capital markets internationally. This allows firms to take advantage of labor in developing countries, which acts as a brake on U.S. wage increases.

Secondly, there has been a significant decrease in the U.S. labor force union participation. In our mind this virtually eliminates the concern of wage-price spiral that will lock in large percentage wage increases, leading to upward price pressure. The majority of unionized employees are in the public domain and while the Federal Government is growing in size, it is not sufficient to drive wage increases for the foreseeable future as unemployment approaches 10%.

Finally, the Federal Reserve is much more active now and we believe Chairman Bernanke will follow the guidance of the 9th Chairman of the Fed, William Martin, and "take away the punch bowl just as the party gets going." (Source: www.wikipedia.com) We anticipate the first interest rate hike before the end of 2009 and expect it to be small (25 basis points), but gives a significant indication of the Fed's commitment to managing inflation expectations.

For the record, we have no comment regarding the 8-Track or future fashion trends.



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TAX AND ESTATE PLANNING UPDATE

While Congress has been very busy (not necessarily the same thing as productive), there have been some actions to be aware of:

A. Estate Tax Status in 2010 and beyond: The estate tax will NOT be eliminated for 2010 only (nor will it revert to 2001 law). These changes are not particularly surprising, but there is some potentially good news. First, the \$3.5 million exemption is expected to remain the estate tax limit and (more importantly) should be indexed for inflation after 2010 — a major plus for the proposed legislation. There is discussion of making the exemption “portable,” meaning that some estates potentially would not require a Bypass Trust and Marital Trust structure (estate plans will still need to be evaluated on a case by case basis).

B. Tax Update. As part of the larger health care reform debate, paying for any plan is never far from tax increases. There are persistent rumblings of taxing employer-provided health care, but we don’t believe this will take form much beyond the talking point stage. While the carbon cap and trade legislation is working its way through Congress at the same time, it will be placed second in priority to health care and we believe will be significantly “watered down” IF it passes at all.

C. FDIC Insurance. Congress extended the \$250,000 deposit through 31 December 2013. It was raised temporarily at the beginning of the financial crisis in 2008 and was set to expire 31 December 2009.

THREE DATA POINTS TO WATCH FOR THE SECOND HALF OF THE YEAR

We think the following are among the most indicative statistics to watch for in the second half of 2009:

a. [Weekly Hours Worked in the Private Sector](#). There has been a miniscule increase from March’s low of 32.8 hours/week worked but unemployment will continue to rise as long as this remains below 33.4 hours/week (Source: www.bls.gov).

b. [Unemployment](#). Approximately 5.6 million jobs have been lost since June 2008 (Source: www.bls.gov) and the unemployment rate now stands at 9.5%. This is higher than we projected and it is all but certain the U.S. economy will surpass the 1982 high of 9.7%. We now project a peak in the 4th quarter of 2009 at 10.3% before we see signs of job creation.

c. [The price of a barrel of crude oil](#). The low of \$33 in February/March 2009 was followed by a rise disconnected in large part from market fundamentals (thru early June 2009). We believe a range of \$52 to \$58 will support economic recovery; below \$50 will hinder exploration and future development; above \$60 will slow the recovery into 2010.

CLOSING THOUGHT

"If ever there was a time to save, it's now. When a dog gets a bone he don't go out and make the first payment on a bigger bone. He buries the one he's got."

American humorist Will Rogers (1879-1935)