

Schultz Financial Mgmt Corp - Investment Commentary

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Dear Investors,

The month of November brought new lows for all of the major market indices with the S&P 500 retracing back to 1997 levels. Worries about declining asset values further exacerbating the credit crisis was the primary culprit. Citigroup dropped in value from \$13 at the start of the month to a low of \$3 before the US government infused capital and guaranteed to limit potential losses in order to avoid another Lehman Brothers type disaster. Fortunately, this action stopped the bleeding and November ended with a bit of a bounce. Our trend following (i.e., market timed) stock strategies absorbed additional whipsaw losses during the month but avoided the worse part of the decline.

Despite a nasty sell-off on Monday, December 1st in modest trading volume, stocks rebounded nicely Tuesday and Wednesday on higher volume. While the market declined late Thursday and sold off initially on Friday after a worse than expected monthly jobs report, stocks rebounded again strongly in higher volume. This past week marked a notable change in behavior from recent rally attempts as bad news was shrugged off and gains were accompanied by higher trading volume, giving evidence that institutions are accumulating shares more aggressively. I have started to add to the trend following stock strategies again this week, but because current volatility is about twice the norm of recent bear markets, I intend to be more conservative than usual until volatility settles down a bit.

The current credit crunch coupled with a strong US dollar has created tremendous demand for US treasury bonds driving up prices, as yields have dropped to historically low levels (e.g., 2.3% for a 10 year maturity). An exception has been US treasury inflation protected bonds which have actually declined in value due to expectation that negative inflation adjustments may reduce the principal values of those securities. Scarce demand for corporate and municipal bonds have caused those yields to increase to very attractive levels. Although high yield corporate bonds are still declining in value, investment grade corporate bonds have stabilized and I have started to invest in them within our trend following (market-timed) bond fund strategy.

The long term potential returns for both stocks and corporate bonds now look to be quite attractive going forward.

Thanks again for your patience during these challenging times. If you would like to discuss your current investment allocations, please give me a call.

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