

THE SWEETWATER PERSPECTIVE

Our Views on Investing & the Economy

May 2008

Don't fear the bargain! After a dreadful first quarter, we believe the markets are finally building a foundation that provides a long-term buying opportunity for opportunistic, value seeking investors. If you're not convinced yet, that's understandable. We've been through several false starts since last August. The flow of negative news continues, and the economy is no doubt struggling - record home foreclosures, a severely deflated dollar, food-on-fuel competition and \$4 gasoline. Where's the silver lining? A look at past recessions and Bear markets gives us some clues.

First, investor sentiment is incredibly negative. This typically happens around major turning points. Whether too positive or too negative, the consensus usually leans too far in one direction. While we're not completely out of danger, we do believe that the market has seen its lows for the year and the risk/reward ratio is weighted in favor of reward. Admittedly, we don't know how long the current economic down turn will persist. However, since 1953, as measured from the beginning of a recession to six months afterward, the S&P 500 gained an average of 42%.

Additionally, individual and institutional investors alike are sidelined with massive amounts of cash earning little or no real return (after taxes and inflation). This won't last. As good news begins to trickle in (or the absence of steady bad news), investors will slowly get off the bench and back in the game. This won't happen overnight, but it will happen.

Another catalyst for a market advance is the tremendous liquidity that has flooded the financial system via the innovative action by the Federal Reserve. Not only has the Fed made money cheaper to borrow, but easier for financial institutions to access. In our view, the combined efforts of the Fed, stimulus from Washington, and business leaders adapting to a weaker economy, should work through the system and stimulate another cycle of multi-year economic growth.

As far as opportunities go, we maintain our bullish outlook on commodities. These include energy, grains and metals. We continue to own a wide array of the physical commodities, and moreover the companies that are mining, producing and selling these.

Overseas, the developed countries of Europe and Japan are suffering from the same greed in which many of our financial institutions were involved. For the time being, we'll continue to focus on the *emerging* economies of

Asia, Latin America and Eastern Europe. From a standpoint of sustained economic growth and from a valuation perspective, these regions offer much more opportunity and likely fewer pit-falls. We are playing this theme with the biggest, most liquid companies who generally pay the fattest dividends.

Our Master Limited Partnerships (MLPs) have been disappointing of late. Based on our research, there is no fundamental reason for this other than the knee jerk reactions of momentum based hedge fund managers being forced to sell these conservative investments to meet margin calls. We remain committed to this sector and believe that this powerful combination of income (many yielding over 7% annually) and growth potential will be in high demand from the growing block of retiring, income-seeking, baby boomers.

The financial sector has been both the culprit and the hardest hit in this market down turn. Typically, the sector that leads a decline will be the sector that leads out with the biggest gains. We've been extremely under-weighted in this area (a good thing), but we are starting to see value. We'll be very selective here, but we plan on participating, likely in the summer.

As painful and frustrating as the past several months have been, April and May have offered significant relief as our portfolios rebounded with a vengeance. Remember, the stock market typically anticipates an improving economy six to nine months out. Savvy investors will anticipate and deploy capital considerably ahead of an actual economic recovery. Once the economy begins to show consistent signs of a recovery, significant gains may already be on the books.

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