WISLAR
WEALTH MANAGEMENT, LLC

Optimum Wealth & Life Strategies Fourth Quarter 2008

The kid in the candy store… Outlook 2009

"Making predictions is a fool's game, especially if it involves the future."
— Mark Twain

Let's start with a score card on how we did with our "Outlook 2008"; we'll list them in the order we presented them last January.

"As the commercial paper market shrinks by hundreds of billions a month, central banks worldwide are facing their largest challenge ever, credit contraction. With its inevitable effect of asset destruction credit contraction is spreading faster than the flu. The areas that are most affected are the areas that benefited most from its formation – the financials, real-estate, and the highly leveraged". We nailed this one, but never imagined how deep it would actually become.

"A year ago (January 2007) we predicted the Federal Reserve would need to cut rates from 5.25% to 3.00%. If we are wrong it's because the rates are going even lower." When written the Fed Funds rate was 4.25%.

"As the risk significantly widens, these rate cuts will have a much smaller than normal benefit on the end user. As evidence, even though the rates mortgages are normally tied to (long Treasury bond) have fallen by more than a full percent, mortgage rates have barely budged." Again, we nailed this one; though the Fed has significantly reduced rates to just 0.00%-.25% and the yield on the 30 year Treasury has collapsed, the widening credit spreads have actually raised rates to the end borrower.

"Over a year ago we eliminated our exposure to the risk spread. We have moved completely away from the High Yield Bond and Corporate Debt markets. We also significantly increased our scrutiny of companies that use leverage when building stock portfolios for our clients." Year-to-date the average High Yield Bond mutual fund has lost 28.9% of its value and the average Investment Grade Corporate Bond fund has lost 11% of its value while the average Intermediate Government fund has enjoyed a positive return of 6.10%. Again, we were right.

"The lead topic for the presidential race will be, to what extent the current credit destruction is having on the average American, including housing, credit, and job losses (in essence, how to get us out of the current recession)." This too was correct.

"Real-Estate will continue to struggle with an eventual decline of 30%+ from the top." The S&P/Case-Shiller U.S. National Home Price Index has now dropped 27% adjusted for inflation, we'll give ourselves that one.

"The bond market will split with top quality attracting money at the expense of low quality." This also played out.

The yield on cash will continue to drop. Cash is the safest asset

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As We Grow

We are excited to announce the addition of two advisors, Jay Batcha and Arthur Doglione.

Jay Batcha, based in Traverse City, Michigan has nearly twenty five years of experience working with both individuals and institutions. Like George, Jay cut his teeth in the Wall Street wire house setting, most recently as the branch manager of the Travers City Morgan Stanley office. Jay also shares our vision of working as a "fee only advisor" looking to escape the conflicts of Wall Street's outdated commission based model.

Arthur Doglione joins us from Scottsdale, Arizona. Art also grew up in the Wall Street setting with a twenty plus year career spent at PaineWebber, UBS and finally Merrill Lynch. Prior to leaving, Art was one of Merrill Lynch's top producing advisors. But, like Jay and George, Art wanted to escape the Wall Street conflicts and now, too, only works as a "fee only advisor".

Both Art and Jay bring us a depth of talent and specific industry expertise. Each of us will continue to service our existing clients, but their addition increases our combined brain power for the benefit of all of our clients.

You can find more information on both Art and Jay by logging on to **www.wislarwealth.com**, drop down to "Our Philosophy", then "Our Team".

Almost Nostradamus

Nostradamus lived from 1503-1566 AD, though dead for 450 years his prophecies are still revered today. He's been credited with such predictions as the French revolution, both world wars, the rise of Adolf Hilter and the September 11, 2001 attacks. Enough with my History Channel education, but wouldn't it be great if he were here today to unravel the mystery of what today's markets have in store for us going forward?

In June of 1998, Jeremy Grantham, Chief Investment Officer of the GMO funds was asked to predict the outcome of the markets over the next decade. His predictions were published in the Economist Magazine, so he was fully on-the-record. As you can see in the chart below, his predictions, though not perfect, were remarkably accurate. A recent study suggests that to have been lucky and that correct would have been only a 1 in 500,000 chance.

Jeremy has been highly regarded for quite some time; he manages money for many University Endowments, state pensions and other institutions. The majority of his funds have a ten million dollar minimum, so are out of reach for all but the fattest wallets.

On August 8th, 2008, Jeremy went on the record, once again, with his long-term outlook. He suggested these predictions were not as difficult as one might think. "In 1998 stocks traded at 35-40 times earnings, sure they could reach 50 times in the short-run, but history shows us that it's not sustainable over the longer-term and they would return to the average of 15 times earnings. Today's valuations are much more reasonable at just 10 times earnings predicting that stock valuations will move higher over time."

His numbers going forward reflect his more optimistic view on stocks. First, he is predicting 2.5% annual inflation, well within the Federal Reserve's target range. He is looking for stocks to return a full 8% above inflation on average which, by the way, is above the historic norm and will compare extremely well to the negative 3% annually over the past decade. As for bonds, Jeremy is looking for an above inflation return of 2.2%

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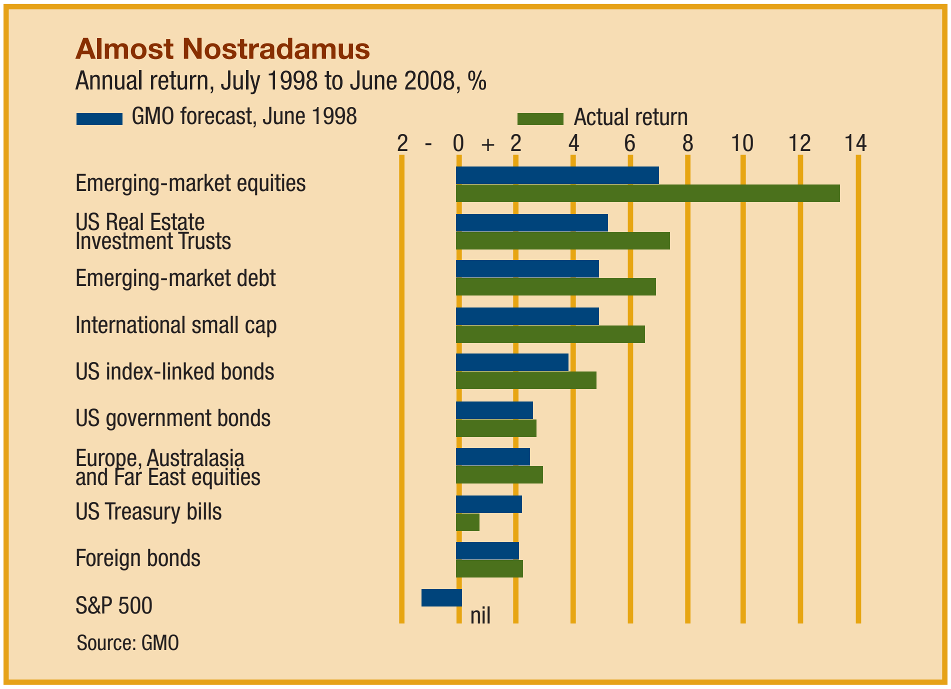
annually. He also suggests that U.S. real estate needs to either fall another 17% or stay flat for four years to reach inflation adjusted fair value.

I'm not sure if 450 years from now there'll be a show on the History Channel entitled Jeremy "Nostradamus" Grantham, but his valuation methods have worked extremely well in the past.



The kid in the candy store…

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class but history shows us that it's only the top performer once in every ten years. Well, we were right on with the yield dropping, but were wrong on the performance, cash outperformed almost everything.

"Stocks on a relative basis to Bonds, Real-Estate and Cash are the cheapest we have ever seen. To fall into a normal valuation, either stocks need to rally strongly or earnings need to decline in excess of 30%. We believe we are facing some of each. The Financials represent in excess of 30% of the S&P's earnings and with the current turmoil their earnings will surely suffer. But it is hard to imagine earnings falling by 30%. For now we have been moving up the ladder towards Mega-Cap Growth, their outperformance should continue while investors shun risk." It looks like earnings will fall in excess of 30% and even though stocks looked as cheap as ever, they've become even more so now. Mega-Cap Growth has outperformed, but it too is down significantly over the past year. I'd say we got this wrong for sure.

All-in-all I would give us a B+ on our 2008 outlook calls, an A on how'd they effect the bond markets, but a C on the stock market. We identified the majority of the themes of 2008, but the economy fell significantly further than we had imagined. We never foresaw the demise of Bear Stearns or Lehman, and the financial crisis played out as if it were on steroids. In our May newsletter we had an article entitled "The Wall Street We Once Knew". We forecasted the fall of Wall Street, the only problem was we thought it would take five years, but in reality it disappeared in just five weeks.

Drum roll please...

Outlook 2009

We're looking for a turn up

Like 2008, 2009 will be a year of change in direction for the U.S. economy, but luckily for us we're looking for a turn up to begin late in the year. The recession that began in December of 2007 will be over in the fourth quarter of 2009, though the recovery will be slower than normal. The reason for a slower bounce than normal is that the American consumer will continue to improve their balance sheet by shedding debt and raising their savings, this will have a long-term stabilizing positive effect on the U.S. economy.

Residential Real-Estate will find a bottom in 2009

Residential Real-estate will find a bottom in 2009, but will bounce along it for a few years. We don't see a meaningful turn up until 2012 at the earliest. When bubbles burst, the healing process is typically a long one. But, with government talk of a 4.50% conforming 30 year mortgage, a home purchase is looking very attractive based on our outlook for interest rates. The first half of the year will probably see a further 10% drop in home prices, but the economics of owning are again surpassing renting.

Commercial Real-Estate begins a hard fall

Unlike residential, we foresee a hard fall for commercial real-estate. Though the real-estate bubble never really inflated on the commercial side, normal economic winds will hit prices hard. The unemployment rate has already moved a full 2% higher to 6.7% and probably won't peak until it reaches 9% thus causing a fall in demand for all categories of commercial real-estate. We see an average decline of 20% in prices across all categories and locations.

Today's bubble is in long-term treasury bonds

Interest rates have historically moved either up or down in secular (long-term) moves lasting between 20 to 25 years. Interest rates peaked in 1982 and have been declining ever since. The end of this recession will mark the end of declining interest rates. Today's bubble is in long-term treasury bonds, the 30 year bond is yielding just 2.52%, well below the historic inflation rate of 3%. Add in the taxes and you're going backwards quickly. The U.S. Government is talking about a 4.5% 30 year mortgage rate to stabilize the housing market. If you're in the market for a home, lock in that rate. You'll be able to brag to others as they probably pay several percentage points higher just a few years from now. By the end of 2010 we see the yield on the 10 year Treasury bond moving from the current 2.15% back up to 3.5% and the two year treasury moving from .87% to the 1.25%-1.50% area.

Stocks will find a bottom in 2009 that should never be revisited again

I see pundits saying we're in a similar bear market to the one that lasted from 1966 to 1982. Somehow they miss a very important piece of information. Yes, the market went sideways from 1966 to 1982, but from the bottom in December of 1974, the market returned almost 13% annually to the beginning of the next bull market that began in 1982. If the November low of $741 holds on the S&P 500 and we don't reach the all time high of $1,553 reached in March of 2000 for another 8 years, you'll enjoy a 12.19% annual return even if dividends are not raised. We've just experienced the worst decade for stocks since 1895; typically dismal decades are followed by decades of above average returns. Prepare to

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enjoy a secular period of significantly higher stock returns.

Defensive sectors outperforming more cyclical sectors

For at least the first half of 2009 we foresee defensive sectors outperforming more cyclical sectors. With leadership in sectors such as consumer staples, healthcare and utilities, their relative consistency of growth is more highly prized during times of economic volatility. Higher dividends will also come to the forefront as a coveted trait, providing current income in a low interest rate environment.

Moving from disinflation to inflation

Like secular moves in interest rates, inflation also moves in long-term trends. For the past 26 years we've experienced a period of disinflation, where inflation trended down. But, this recession should mark a secular trend change towards higher inflation going forward. All of the policy moves taking place to avert deflation should and will push inflation higher. A look through history shows us that major financial crisis's are typically followed by extended periods of higher inflation. Higher inflation benefits stocks over bonds, inflation protected bonds over traditional bonds, eventually move gold and other commodities higher and weaken the U.S. dollar. A benefit to higher inflation is reducing the value of the U.S.'s debt. If you keep your debt level static and experience 5% annual inflation, the value of your debt burden falls by 5% per year. This transition will take a year or two to materialize.

Burning like a wild fire during the Santa Anna winds

The credit crisis which has been burning like a wild fire during the Santa Anna winds will be declared contained. The extraordinary steps taken by the U.S. Government will prove successful, and Depression 2 is off the table. But the side effects will be with us for some time. Once the fear of deflation passes expect inflation and interest rates to move higher, and the decline of the U.S. dollar to resume, inflation protected bonds look very attractive.

We have been presented with more opportunities than ever before

Once the investing community becomes confident that Armageddon has been averted, risk assets should significantly outperform risk-free investments. As the investing public fled any risk asset in 2008, they left extraordinary values in their wake. Some of these value classes include stocks, convertible bonds, senior floating rate loans, high quality corporate bonds, municipal bonds and many more. We have been presented with more opportunities than ever before, we foresee a time where historic returns could double for a few years in many asset classes, and we feel like the kid-in-the-candy-store. ●

Calling a Bottom in Real Estate – Well, Almost

In our in October, 2006 newsletter I warned of the upcoming real estate crisis. I had been watching CNBC; the head of building for Palm Beach County Florida was a guest on the show. He said the following, "Between 1995 and 2005 we built a total of 9,000 condos in Palm Beach County, and in just the first six months of 2006 we received applications for 90,000 more. Where are these people going to come from?" There were also reports of foreigner investors buying property sight-unseen over the internet. Sounded like the Tech/Internet bubble to me.

Fast forward to today. The inflation adjusted home price in the U.S. since the 2006 peak has dropped on average 27% to $150,040 as reported by S&P/Case-Shiller U.S. National Home Price Index as of October 2008. Another bubble bites-the-dust!

Though I still expect the index to fall further, there are some interesting signs of hope. I've been a renter for the past three years based on my real estate outlook. But with the recent decline, owning is once again competing well against renting financially. As well, the U.S. Government has suggested it may soon start to use both Fannie Mae and Freddie Mac as a tool to stabilize prices. So far the hints include a 30 year conforming fixed rate mortgage with a rate possibly as low as 4.5% (sorry this won't apply to refinancing) for home purchases for qualified borrowers, which translates to a minimum 20% down payment and a credit score of 720 or higher.

When the pendulum swings it never seems to stop at equilibrium. As overpriced as real estate became it may become significantly under-valued. At the high it was more than 30% above what we determine to be fair prices. Today we're approaching fair value, but by mid 2009 should be 10 to 15% below normal.

My hunt for a new home has already begun, but I'm not in a hurry because the real estate bottom will take time to unfold. I will be picky and probably bid significantly under the asking price, but plan to be an owner instead of a renter within a year. If you've dreamed of a second home in Florida or trading up, it may be time to get ready for a move. ●

The Pursuit of Happiness

Staying focused on your ideal future

When building a financial plan for our clients, the default life expectancy age for men is 93 and women 95. And, if we can expect a recession every eight years on average and that lasts 12 months on average, chances are you'll live through a total of 10 plus years of a contracting economy. That's just too much time to be wrapped up in the negative headlines.

Sure the news has been negative, but that shouldn't rob us of our long-term dreams and our ideal future. I'm going to present you with several questions we use during our life coaching sessions with clients and some of the typical answers. Some of the answers may apply precisely to you or have no connection at all, but hopefully it will stir the answers that are you. Keeping a focus on your ideal future is more important now than ever.

What do you want more of in life? More time with my family and friends. To start my own business. Time to focus on myself, like going to the gym or walking. Help my daughter start a business. Spend more time with my grandchildren.

What brings you the most joy in life? Watching my children's successes. Helping others. Time away with all of my children and grandchildren. Reaching goals I've set out for myself. Riding my Harley.

In an ideal world what would you like to see in the next chapter of your life? I want a second career as a teacher. I want to retire and move to a home on the ocean. To stop obsessing about work and spend more time with my kids. To get into shape. I've always wanted to learn how to sail. To simplify my life and reduce stress. Better health.

If money weren't an issue, what would you probably be doing with your time? Nothing different. I would move out of the city back into the country, quit my job and be a small town lawyer. I would quit my job and do volunteer work with a focus on kids. Definitely more travelling.

> *"We should never lose sight of what makes us smile, especially when the world around us seems a little harder."*

What dreams or aspirations did you have when you were younger that you would really like to reconnect with? I always wanted to be a nurse. I wanted to be a writer. My father coached my hockey team and I want to do the same thing for my boys. Finish my college education.

If you knew you couldn't fail what would you probably do? Start my own company. Be an actress. Write a book. Become a pilot. Return to school and become a chef and open my own restaurant. Be a day trader.

What stress creators are you looking to get behind you? My commute, it's been driving me crazy. Payoff all of my debts, school loans, mortgage and credit cards. My sons divorce. My daughter's wedding. Paying for my children's college education. Selling my business.

Take a moment and picture yourself in the future, where are you living? Somewhere warmer and close to the ocean. Central to my kids. Where I am, I love it. In the mountains where I can always hike. **What are you doing?** Same thing. Drinking wine with my friends. I've always wanted to drive across the country. Relaxing in the sun in the winter months while people in the north are freezing. **Is it costing you more or less than you're currently spending?** I don't know. Probably about the same. I want it to cost less. **Any major expenses required to achieve your ideal future?** No I plan to sell my current home to buy the new one. Yes, I'd like to buy a house on a lake in North Carolina. About $30,000 for a sail boat. Enough to purchase an RV and travel.

How do you want to be remembered after you're gone? That's easy, as a teacher or guide, always there when needed, a great mother. Someone who was a great friend, made people laugh, could always be relied upon. Making a difference, helping people, a true friend.

We should never lose sight of what makes us smile, especially when the world around us seems a little harder. I'll let you in on a secret that you probably already know. We have found that time with your children, grandchildren and friends and a purpose that lights your fire are keys to a happy life. Take the time to ask yourself the nine questions we have listed above; make note of your answers and focus on making your life better.

Finally, we'll give you one last bonus. If you're feeling negative or troubled make yourself smile. Yes a fake smile held for at least 20 seconds will lift your mood, try it. ●

Bernie Madoff

We thought it timely to address ways that we can all try to protect ourselves from investment scams and fraud. The Bernie Madoff story once again reminds us that not everyone has our best interests in mind. It has been terrible to watch the headlines as charities have closed, investors have lost life savings and even the suicide of an advisor whom trusted his clients assets with Bernie Madoff. We will describe several steps that should help investors indentify risks from similar fraud.

Your assets should be held with a reputable custodian. If using an independent advisor, your assets should be with a well recognized custodian such as Schwab, TD Ameritrade, Fidelity Investments (our preferred custodian) or one of the big Wall Street firms such as Smith Barney, UBS or Merrill Lynch. Your confirmations and statements will have your custodian's information printed on them. Bernie Madoff served as his own custodian, though legal, leaves room for question. He compiled and printed his own client information and as it turns out he made it up.

You should have online access to view your accounts, statements, trade history and more. The web address should make sense. Fidelity's is **www.fidelity.com**, Schwab's **www.schwab.com**.

Most reputable advisors offer quarterly performance reports. We use an independent firm Advent which pulls our client information directly from Fidelity on a daily basis, reconciles the performance data which is then stored securely at Advent. We are unable to manipulate our client data in any way. You will be able to view the name of your advisors performance company in the small print on the performance report. It should also discuss its accounting method for accuracy.

"When looking at an investment that doesn't fit the traditional asset class such as a stock or bond, dig deeper."

When looking at an investment that doesn't fit the traditional asset class such as a stock or bond, dig deeper. The first thing when checking under the hood – look to whom their accounting firm is. You know the big names and if you don't recognize them check them out on the web. Bernie Madoff was supposedly using a one or two person accounting firm in upstate New York which may turn out to have been a sham as well.

We've all heard it before, but if it sounds too good to be true it probably is. We all know there's no free lunch. For years Bernie Madoff's competitors questioned how his returns were possible, one of them even wrote an article on it back in 1999. So it's evident that not all were fooled by his scam.

One of Warren Buffet's famous quotes fits well here "When the tide goes out, you get to see who was swimming without a bathing suit." Hopefully Bernie Madoff will be the only like case during this downturn, but if not, you should now have more tools to protect yourself. Every downturn has a way of exposing the current scam, such as Bernie Madoff, Worldcom or Enron.

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