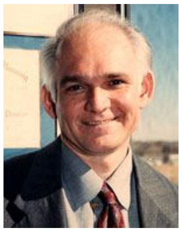
Investment and Asset Planning, LLC

Quarterly Newsletter

4TH QUARTER 2008   JANUARY 2009   VOLUME X, ISSUE 4

Review & Summary



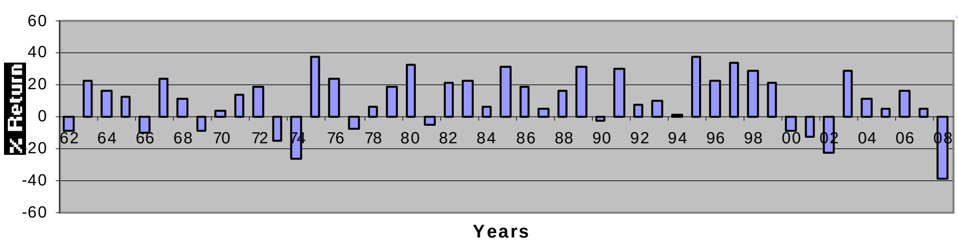
By Jordan Gary, CFP®

As I write this, the stock market and bond markets are doing better after having the worst year since the great depression. In fact the US bond markets have had the worst market in history. Nobody that I know expected such a panic which caused this terrible market to happen. People expect hurricanes but people do not expect Katrina like disasters to come to their city. After Katrina, the region began to recover and the disaster created profit opportunities for many people who helped with the rebuilding. Disasters like Katrina or last years financial crisis creates panic for many people. But for those who do not panic but determine how to recover and make new profits are much better off.

During the last quarter the stock markets went down 20% with a total decline of 50% since the market peak of October 2007. Now the stock markets have risen about 20% since the market lows in November. For the calendar year 2008, the S&P 500 lost 38.5%. Most professional economists are now expecting a moderate recession for another six or nine months with a return to a growing economy by the middle of next year. Very few professionals are expecting a severe recession or a depression, however, many people have been frightened by such talk and exaggerations. The financial markets will recover, and before the economy does, as they always move up on hope of better times.

We have been very active over the last year and even more over the last two months. We have been selling riskier stock market mutual funds and buying more conservative bond funds. We sold small cap stocks last year. We sold developing market stocks in January and sold natural resources stocks in June and again in August. We bought conservative bonds. Then at the end of September, we sold mid cap US stocks and bought a fund which is designed to go up in value when the stock market goes down. (We bought a double inverse S&P 500 fund and made a very large profit with it.) All this has been to take profits and reduce risk. In November and December, we sold more stock mutual funds and bought some amazing bargains in high dividend stock and bond mutual funds. We are finding amazing bargain investments which have not been seen before, not since 1929. Any panic selling creates investment bargains and last quarter created many of them. **Please call us with any questions.**

Annual Returns of S&P 500 Index w/ Dividends (46 Years)



Current Market Commentary

By Jordan Gary CFP®

2008 wasn't just a bad year. It was a terrible year, the worst year for the markets in a lifetime. A massive hurricane kind of year. The kind that wipes out some proud, century-old institutions and leaves most people decidedly poorer and changes the public's outlook on government, regulations, and politics.

Enough of that. If you want to

Please See **Forecast** on Page 2

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Current Market Comments (Cont'd from Page 1)

know more about what we believe happened and why, then please read our last two newsletters. You can find them on our website. On to 2009 and our outlook.

2009 Outlook

I have no crystal ball. But we have lots of history, basic economics, and common sense to help us.

We will have a lot of unemployment with the FED thinking that it may get to 9%, which will be the worst since the early 80s and mid 70s. Many businesses will fail and home prices in many parts of the country will fall still more. You can pick up the news any day now and get lots more negative and fearful projections.

2009 Could Be Much Better

1) This will be a good year to invest in stock and bonds

No one knows when the bottom of the market is reached. However it may have been last November when panic selling was so very strong. Current prices in stocks and bonds are priced for real economic disaster with the cheapest relative prices in decades. Corporate bonds and notes seem to be priced for half of corporations to close. This will not happen.

We will not have a depression and within the next several months the economy will start to improve. As panic selling slows down, prices start up, as we have been recently seeing. Then as economic news turns out to be less bad than many fear, prices will start up more. As economic news starts to improve, the markets will move up sharply. All this should happen in 2009. Even if we have the worst economy since the great depression, the crisis should be over within a year.

If you are putting new money into retirement savings, then now is the best time to invest in many years. You get to buy cheap and the strong rebound will happen soon.

2) It will be a good year to invest in real estate.

This one is a bit more uncertain. Real estate prices have dropped and continue to drop. But shopping for real estate is a time consuming and knowledge intensive process. And there are many problems to overcome as properties usually need improvements and can often be very slow to sell.

But for the careful buyer, bargains can now be found. And now a person with good credit can get wonderful rates on fixed-rate mortgages. So if you want to search for a piece of property that you want, if the seller is willing to take much less than a year or two ago, and if you have good credit and enough money, then you can benefit from a once-in-a-lifetime double bonus of low prices and low interest rates. (The 1980s had low prices but not low interest rates.) We expect to be buying real estate mutual funds sometime this year.

3) Americans will learn to live within their means.

For many years our economy has been built upon many people spending more than they earn and not saving anything for retirement and the future. Most of us have learned that this is very foolish and now many more people are learning how important this is. This sudden realization caused less spending for Christmas, for cars and trucks, and also restaurants and other consumer items. Businesses are also scrambling to reduce debts. Let's hope that these lessons last for many years and that our government soon learns this lesson.

4) Your Federal income taxes will not rise.

Pres. Obama is about to announce his economic stimulus program which will include large income tax reductions for most people and most small businesses. He promised this during the campaign and Democrats and Republicans are joining together in the opinion that taxes should not be raised during a recession.

Of course, the problem is that even without the tax cuts, the federal deficit projections for 2009 are already twice as large as for the very high deficits of 2008. This of course is unsustainable. War spending and social service spending for Medicare and Medicaid and social security must come down. But these are problems for the future. Let's hope that politicians start to be real problem solvers and real leaders.

5) Pres. Obama will have a historic opportunity to reshape public policy.

In a couple of weeks Pres. Obama will be delivering his inaugural speech and it will be a significant milestone where the president will set the tone of his presidency. If he does a good job he will do a lot to reestablish the public's confidence in our economy and future. That alone will do a lot to set the economy and financial crisis on a positive path. Presidents who come into office in crisis times can become great presidents and lead our nation to solve problems and improve and reshape public policies. I am optimistic that Pres. Obama and his administration will do a good job.

So I am optimistic that soon the crisis will be over and much of the problems will be purged and corrected. Meanwhile we will continue to make shifts in portfolios to protect them as best we can and to invest them where the greatest bargains are and the highest potential to make profits at reasonable risks seem to be. We are currently buying more bargains in good bonds which offer high dividends and a very good potential to appreciate in value as the credit and stock crisis abates.

Likewise we are finding amazing bargains in closed end mutual funds and are currently moving portfolios from open end mutual funds into closed end mutual funds.

Please look over your reports and schedule an appointment if you would like to know more.

Lessons from the Madoff Scandal

By Jordan Gary, CFP®

Over the last several years, when I have gone to conventions, I have usually been solicited by salespersons from Tremont Group Holdings. They offer hedge funds which charge fees to choose and monitor other hedge fund managers into which they diversify clients' money. They claim to have great expertise in vetting hedge fund managers and thereby reduce risk and increase returns for investors. I have always refused to consider recommending such investments as hedge funds to clients. Such investing is based upon gambling and appeals to foolish investors who are motivated solely by greed. (You can read more about these topics on our website.)

In December we learned that Tremont had placed billions of dollars with Madoff who has stolen about $50 billion of clients money. Thank goodness that I never put any faith in these hedge fund salespersons. In a past newsletter I wrote of the many billions of dollars which people have lost investing with crooks who have found their prospects through churches and other charities. Madoff found most of his victims through Jewish communities and organizations and charities.

Let me suggest some lessons that we all need to heed which the Madoff scandal reminds us of.

If it sounds to good to be true, It Is

Investors flocked to Madoff not because he claimed to get homerun like returns, but because he claimed to have above average returns each and every year. He claimed to have secret methods to generate above average returns with almost no risk. For people who wanted to know how he did this, he threw them out and refused to disclose anything. But greedy people were often attracted to him. He seemed so very successful, as he lived the high roller life...with stolen money. Whenever one is investing, make sure that it makes practical sense and the claims and methods are reasonable. And avoid investing with greedy motivations.

Only Invest where you get Independent Statements

The Madoff investment company generated only its own statements and tax reports. And they claimed to be using a Madoff brokerage company to be making all the trades. And they never showed the trade confirmations to anyone including the SEC or any investigators. Our clients all get confirmation statements from an independent investment company such as TD Ameritrade. This proves that all investments are real. Remember that most crooks create their own statements and mail them to clients.

Diversify, Diversify, Diversify

The investors who were hurt really bad by Madoff were charities, investment managers, and people who gave large parts of their portfolio to Madoff for management. All investments have bad years and crooks turn up in all industries and professions. So people should limit any one investment to always being only a small part of their net worth. That is why our clients have so many different types of mutual funds. And each mutual fund is diversified into many individual investments. So each of our investors have many different investments and managers at many different investment companies.

Beware of Potential Conflicts of Interest

Instead of allocating their investors assets broadly across many hedge fund managers, a few fund of fund managers, like Tremont, let oversize portions of the money ride with Madoff. Why would investment managers be so reckless? And why would so many investment professionals not do adequate due diligence as they were being paid to do? The answer seems to me to lie with conflicts of interest.

Madoff paid millions of dollars in many types of fees to people who sent him their client's money. These managers had every incentive to not rock the boat or ask too many questions.

These types of conflicts of interest are very, very common in the investment world. Hedge funds, like Tremont, offer investment advisors larger profits by way of increased fees. Many mutual funds offer higher commissions or larger trail fees to entice business. Many insurance companies offer higher commissions to get more annuity, life insurance, or other insurance business. The riskiest or worst investments or insurances often offer the highest profits to advisors.

For your understanding, we are Registered Investment Advisors. As an RIA we are required to disclose in writing to our clients all of our possible conflicts of interest. (Please ask for our *General Information and Disclosure Document* to read this.) Commission sales people such as stock brokers are not required to disclose such conflicts of interest. The investors must beware and ask questions about conflicts of interest until they are completely satisfies that they can make a prudent decision.

We try to reduce conflicts of interest by being fee-only Registered Investment Advisors. We also see it as our job to try and understand the conflicts of interest that mutual fund and insurance companies have. We search for companies which are good moral companies which charge reasonable fees and who don't seem to be greedy or corrupted by many potential conflicts of interest. I am reminded that most of the large investment banks have just failed because of letting greed and conflicts of interest lead them to make terrible decisions.

Lipper Stock and Bond Fund Benchmarks

	Performance					
				-- Annualized --		
Investment Objective	**Dec.**	**4th Qtr.**	**1 Yr**	**3 Yrs**	**5 Yrs**	**10 Yrs**
Stock Fund Types:						
S&P 500 Funds	1.03	-22.03	-37.29	-8.82	-2.68	-1.85
Large-Cap Growth Funds	1.76	-23.25	-40.70	-10.48	-3.72	-2.92
Large-Cap Value Funds	2.15	-21.72	-37.36	-8.83	-1.91	0.51
Small-Cap Growth Funds	4.83	-26.59	-42.11	-11.49	-3.81	1.02
Small-Cap Value Funds	5.26	-25.94	-33.45	-9.59	-0.90	5.41
Equity Income Funds	2.10	-19.53	-33.77	-6.69	-0.73	1.08
Utility Funds	0.71	-13.45	-33.53	-0.20	6.89	2.96
International	7.03	-21.27	-44.24	-7.73	1.27	1.73
European Region Funds	6.03	-23.23	-46.97	-7.47	1.67	2.42
Emerging Markets Funds	6.71	-29.91	-55.47	-6.77	6.04	9.16
Avg. U S Stock Fund	3.13	-23.83	-38.73	-9.85	-2.40	0.58
Bond Fund Types:						
General Municipal Debt Funds	-0.47	-4.12	-9.09	-1.44	0.53	2.44
High Current Yield Funds	-7.37	-18.31	-25.11	-8.02	-2.48	0.57
Intermediate U.S. Government Funds	4.50	-0.77	-0.14	3.33	3.80	5.04
Intermediate Investment Grade Debt Funds	3.53	-0.28	-4.47	1.04	1.72	4.05
Avg. Bond Fund	3.09	-4.30	-7.73	0.15	1.45	3.50
Balanced Funds (Stocks and Bonds)	**3.54**	**-15.55**	**-28.22**	**-5.17**	**-0.39**	**1.51**
Conservative-Allocation Fund Averages	**3.23**	**-9.34**	**-17.21**	**-2.39**	**0.55**	**2.17**

Source: Lipper Analytical Services, Inc., Summit, NJ 07901 and
Wall Street Journal OnLine– January 4, 2009

These are averages of all the reported funds that have the stated objective. Average total returns based on NAV with all distributions reinvested. An investment cannot be made directly in an index, including the Lipper indices listed. Some funds are normally front end commission funds. Our clients do not pay commissions in their managed accounts. We buy shares at Net Asset Value (NAV). Past performance is not indicative of future results. The performance presented is for illustrative purposes and is not indicative of any investment.

The investment return and principal value of an investment may fluctuate. An investor's shares, when redeemed, may be worth more or less than their original cost. Investments outside the United States involve special risks such as currency fluctuation, political instability, differing-securities regulations and periods of illiquidity. For a prospectus containing more complete information on any fund, please contact Investment and Asset Planning, LLC or Jordan Gary & Associates at 940-761-2527. Investors should read the prospectus carefully before investing.

The balanced stock/bond is a moderate risk way to invest. The traditional balanced fund has a portfolio of approximately 60% Blue Chip stocks, 35% conservative bonds and 5% cash. We have highlighted the above because we suggest that you use these numbers as the benchmark we are trying to beat in many of your portfolios. Our method of out performance is that we have far more diversification into different types of stocks and bonds, and we more actively manage the portfolio choosing the best mutual funds we can find to build your portfolio. Our objective is to match or beat the performance of the balanced stock/bond return. Check your quarterly report. How have we done?

New Tax Rules for 2009


By William Niles, CPA

I am sure that these will not be all of the tax changes for 2009 as our new president struggles to solve some very complex economic problems. But these changes are already on the books, so we can look at them now.

The estate tax "exemption" increases from $2 million to $3.5 million for 2009 effective Jan 1st. This is the most dramatic tax change for 2009, assuming that you die and have an estate greater than 3.5 million as this increase in the estate tax exemption can generate an estate tax savings of nearly $700,000 for a taxable estate.

The up to $500 residential energy credit for energy-efficient items for your home has been reinstated and only applies for 2009. Qualifying improvements include insulation systems, windows and doors, and new items including asphalt roofs with cooling granules and stoves that burn biomass fuel. In addition, there was a $2,000 cap on solar/photovoltaic energy credits for 2008 but the cap has been eliminated for 2009.

Congress has also changed the rules on shielding gain from the sale of your principal residence. A married couple can still exclude up to $500,000 of profit on the sale of home from their taxes, except now the excludable gain will be limited by "non-qualified" use of that residence. Generally, "non-qualified" use is holding the property as a vacation home or a rental prior to its conversion into a principal residence. Of course, this assumes that you make money selling your house in 2009.

Beginning in 2009, farm machinery and equipment in general will have a shorter five-year depreciable life, which will serve to accelerate depreciation deductions. In addition, eligible retail store improvements may be depreciated over a 15-year life rather than 39 years. Which is nice if you haven't already retired.

The casualty loss "deductible" amount increases. This is tax increase, but not a very significant one. Personal casualty losses will be subject to an increased deductible amount of $500 instead of the $100 to which we are accustomed.

A change that we have heard a lot about which may affect you is that brokers will generally have until Feb. 15, 2009 to submit Form 1099 to you. The old due date was Jan. 31. This change will require you to wait until at least Feb. 15 to file your tax returns to make sure you have the accurate account information from your broker. Hopefully this change will result in less amended tax returns since this gives the brokerage houses longer to get their data correct before sending out the notices. New Form 1099 requirements also apply to the exercise of incentive stock options and employee stock purchase plans.

The final extended due date for receiving Form K-1 from a partnership or a trust will be Sept. 15th starting this year. This is a two-edged sword in that it will enable taxpayers to have more time to assimilate the information prior to their ultimate extended filing date of Oct. 15 for their individual tax returns. But if you have responsibility for getting a partnership tax return filed, be aware that you have to get that return filed no later than September 15th.

For 2009, the failure to file a timely tax return will result in a penalty of $135 increased from $100. This penalty applies even if you have a refund.

And last, and possibly least, bicycle commuters receive new tax-free fringe benefit - Beginning in 2009, bicycle commuters can receive $20 per month tax-free to offset the cost of purchasing and maintaining a bicycle.

So most of these changes are pretty trivial. And the big changes are still on the horizon. But at least you know what is already in place.

The New Deal

By Oscar "Buddy" Jackson III

The stock market has changed, broker-dealers have changed, investment bankers have changed, banks and the world have changed. There are completely new dynamics working the cause and effects of our economy. We, at Investment & Asset Planning, LLC are fully aware, and we would like to acknowledge this situation. We are paying attention and we are studying the changing conditions constantly. There will always be the "cup half empty and the cup half full" people in the world. I, we, continue to be optimistic and look for the opportunities that are being given to us at this time. We are researching the history that applies, the direction of the economy, the different sectors of the stock market, bonds and different investments that could make sense at this time, and every possible aspect of which we can think.

In The Dallas Morning News on Wed, December 17, 2008 there was an editorial titled "SEC IS OUTGUNNED". We have expectations that our government will protect us from fraud and cons in the market place. In regards to this matter, they have created the stock market watchdog called the Securities and Exchange Commission (SEC). In the article it was stated that the SEC investigated Mr. Madoff in 1992, 1999, 2005, and 2007 and found nothing. Bernard Madoff is the man who stole $50 billion in an old fashioned Ponzi scheme (pyramid scheme, etc.). It turns out that our SEC is understaffed, under funded, and has way too many resposibilities to keep up with. To emphasize the size, the article stated that "If a big-city police department was as undermanned as the SEC, the force might be able to write 5 speeding tickets a year - but don't count on it".

All of our government projects seem to be pretty much the same. We create a commission, board, or other entity to handle a situation and then make sure to hand it too many burdens, don't hire enough help, and cut its funding. We waste money on projects in the name of being economical. From the above editorial, it states that "Washington should hang its head in shame." There is no doubt that President Obama is going to have his hands full. We can all join in and help him or we can pick at every little detail so that we can be sure that nothing is done. The truth is that morality can not be legislated. If a thief wants to steal, he will steal.

We view it as part of our job to help the SEC protect you from such thieves. We will use our abilities for you to try to avoid all such schemes. We will keep on studying and we will use our education, knowledge, and long experience to give you the best benefits you deserve. We will continue to look and study new investment opportunities. We will continue to anticipate the direction of the economy and the stock market. We can never be 100% correct, but we have trust in ourselves to make the right calls and we are working very, very hard to maintain your trust. Please call us if you have any questions or concerns. We are here for you.

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