April 9th, 2009

Here is our quarterly newsletter.

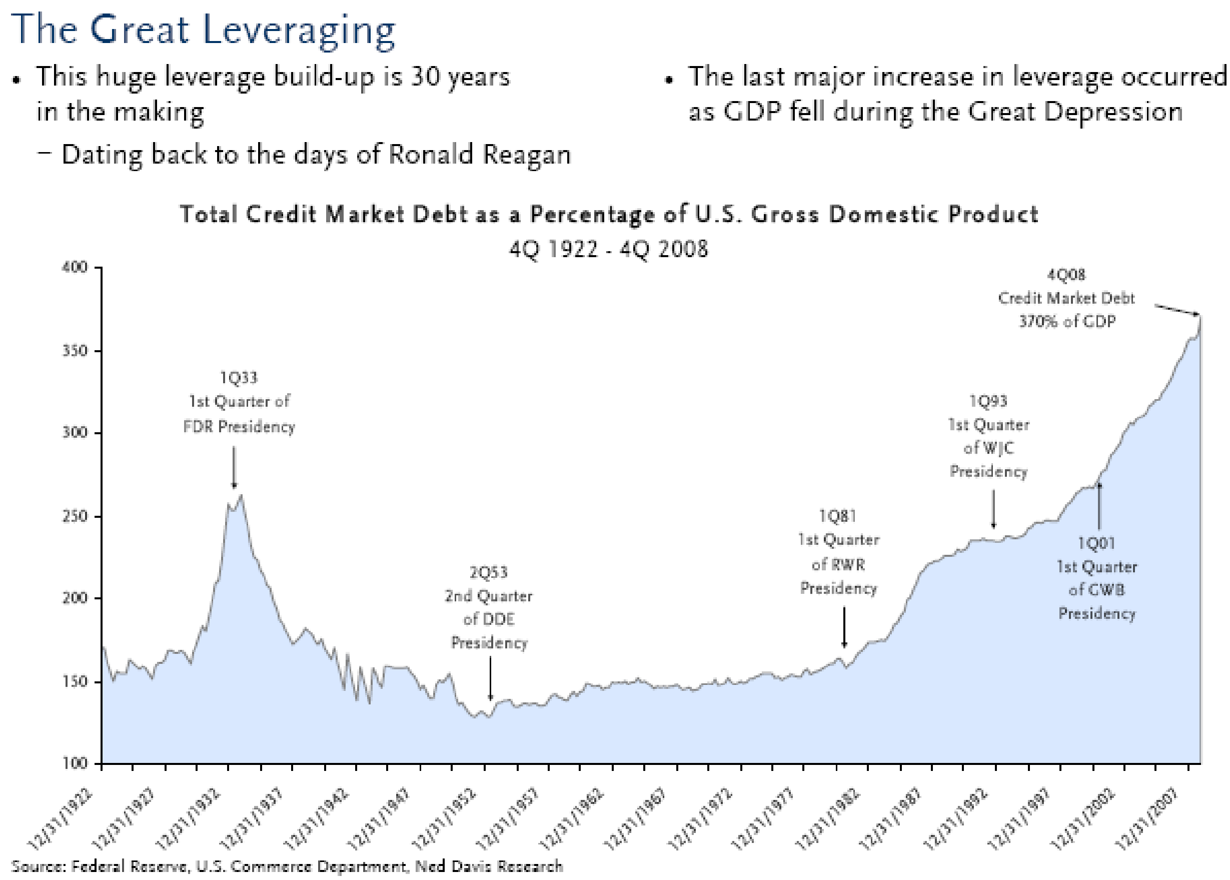
The Markets

Our equity benchmark ended the quarter with a loss of 12.3%. All sectors were down, although larger-caps and growth dropped less. REITs continued to be the worst performer with a loss of 32% for the quarter and down 75% from their peak in February 2007. The only asset class that generated significant returns was high-yield bond with a gain of 5.3%.

Our portfolio strategies continued to hold benefits for our clients as losses were less than our benchmarks. The most significant contributor to our performance was our 18% allocation to high-yield bonds and using them as a substitute for stocks. We anticipate our investment in high-yield bonds to continue for some time as the economy and stock markets continue to struggle. Under our current allocation I would expect our portfolios to not be as volatile as our benchmarks. So, when the markets go down the portfolios will not go down as much. Similarly, when the markets have a significant up-leg our portfolios will go up but will trail our benchmarks.

Another contributor was the Hussman Strategic Growth fund which returned 7% for the quarter. John Hussman, who manages the fund, uses an option strategy to hedge his equity positions whenever he sees downside risks in the markets. His weekly commentary is an interesting read and can be found on his website. He has been critical for some time about the efforts by the Treasury department under Paulson and now Geithner to save the country's largest banks. The problem he and many prominent economists see is that they are bailing out the stock and bond holders of these companies (CITI, Bank of America, etc.) using taxpayer money instead of requiring the stock and bond holders to take a hit. As foreclosures continue to increase, home values continue to fall, which cause more foreclosures that further home price weakness. Several refinance and loan modification plans have been recently introduced, but many do not believe these measures will be enough to reduce the rate of foreclosures.

Because of this and many other factors we continue to stress that in the short term there remains significant downside risk in the stock market. While we may give up some returns if the markets take off on a significant rally, given our approximately 20% underweight in equities, we feel better taking advantage of better opportunities elsewhere. Since the beginning of the year I became more optimistic and hopeful as the new administration took office and the markets seemed to be stabilizing. Unfortunately hope is not an investment strategy. Nor are you paying me to be an optimist or a pessimist. Rather you are paying me to apply a realistic assessment of the markets and employ investment strategies that will benefit you.



The chart above shows the increasing mountain of debt in the U.S. since about 1982 as measured as a percent of Gross Domestic Product (GPD). The largest contributor to the increase in debt over the last 25 years has been the financial companies, primarily the investment banks, private equity and hedge funds. The next largest contributor to the debt increase has been in the household sector. The simple truth is that households have been spending more than they have been producing for a long time and their spending has been partially funded with borrowed money.

Also note the big increase during the Great Depression and subsequent deleveraging cycle that lasted for many years. A similar deleveraging cycle is what we face today and that is why growth in the economy, here and around the world looks to be subpar for several years.

In our last newsletter we talked about why restructuring our own debt would be the best move any of us could make. Interest rates available for refinancing have gone down below 5%. If you have credit card, auto or other debts and you have equity in your home you could consolidate all these debts under a home loan and reduce your interest costs significantly.

Roth IRA Conversions
Now may be the best time to take advantage of this tax strategy depending upon your specific situation. A Roth conversion is accomplished by moving assets from your traditional IRA into a Roth IRA. While tax deferral is usually beneficial for most, this year may be an exception. Here are some facts to consider.

1. All funds that are transferred are treated as taxable income, assuming you have no cost basis in the IRA (all the contributions were tax deductible).
2. All earnings in the Roth IRA going forward are tax free. All future withdrawals from a Roth IRA will come out tax free whereas all withdrawals from a traditional IRA are subject to income tax when withdrawn.
3. The cost to do the conversion has dropped if the value of your traditional IRA has gone down.
4. If your taxable income is lower this year than it will be in the future you may be able to pay the tax at a lower tax bracket this year.
5. The economic stimulus bill recently passed will probably reduce the tax you pay on the conversion this year. See more on this later.
6. Could be a great hedge against future tax increases. Under current law tax rates are due to increase in 2011 for higher incomes and capital gains. See next section.
7. If you have a non-IRA portfolio that has large unrealized losses, you could harvest those losses to reduce the tax cost of the Roth conversion.

Give me a call to see if this may be beneficial for you.

Stimulus Bill Highlights
President Obama signed into law in February the $787 billion American Recovery and Reinvestment Act of 2009. This is a far-reaching bill that has ramifications for everyone and provides many opportunities. A summary of the Act is posted on my website on the Documents page under "Articles of Interest" at www.CompFinancial.com. In addition to providing increased funding for federal and state programs, the law also includes many provisions that can decrease your taxes. A few highlights include the following.

- Tax credit for 2009 and 2010 of $400 and $800 for single and joint returns respectively. The credit is reduced for incomes over $75,000 and $150,000 for single and joint returns.
- AMT relief for 2009 in the form of higher exemptions.
- First Time Homebuyer Credit. This is an extension of the previous law and lasts until year end. First time homebuyer is defined as anyone who has not been on the title of a home for at least two years.
- Sales tax deduction for new car buyers for purchases before January 1st, 2010.
- Many provisions for reducing taxes on businesses including extension of bonus depreciation, carry back of losses for 5 years (NOLs), small business capital gain tax exclusions and many more.
- A $250 credit for all retirees on Social Security.

The net effect of these provisions will be to lower your taxes for 2009 and 2010. The longer term effects of these and many other factors will be to increase your taxes in the future as the government will have to find ways to pay for all the programs. Putting a plan in place that recognizes these opportunities and challenges can help you minimize your tax burden, not only now but over the years to come.

Thank you for your continued business and I will continue to work hard to earn it.

Sincerely,

Stan Johnson, CFP(R)
Comprehensive Financial, Inc.
Registered Investment Advisor