Christiansen Investments, Inc.

Registered Investment Adviser

Spectrum Investor® 1st Quarter 2009 Investment Review

Enclosed are your investment returns for the 1st quarter 2009. The good news is the battered stock market in March posted its best monthly gain since October 2002, but it wasn't enough to help stocks avoid a sixth quarter of losses, matching a record set more than 30 years ago. The ability of stocks to rally sharply off the March 9th bear market low raised hope that the market will stabilize in the coming months, especially with the worldwide stimulus packages beginning to kick in and the recently announced, less restrictive, mark-to-market FASB accounting rules. The market rallied 20% in a span of three weeks in March 2009, but still fell 11.7% in the first quarter. The only other time the index lost money six quarters in a row was the dismal period from the 4th quarter of 1968 to the 2nd quarter of 1970 according to Standard & Poor's 4/4/09 (*WSJ* 4/1/09, *Barrons* 4/6/09).

The economy typically lags the investment markets by about five months. The huge layoffs of today are echoes of the October 2008 downturn in the market. As Stephen Leeb from *The Complete Investor* (4/09) states, "market crashes eventually cause layoffs, not the other way around. **Unemployment is a lagging indicator, not a leading indicator.**"

Since 1928, value stocks (purple), with lower PE ratios and higher dividend yields have surpassed growth stocks (red) by an average of 3% per year. This outperformance by value stocks is especially true of small cap value stocks (orange). The long-term outperformance of value stocks is a core principal of our Spectrum Investor® Concept. However, over the past year, growth stocks have beaten value stocks by 8%. When growth outperforms value, it signals that the market has potential to struggle. For example, in most of the 1928-1932 period, growth (red) outperformed value (purple). When value assumed leadership in late 1932, it signaled the start of the next bull market. When the market returns to its historic form, it's generally value that leads the way (Stephen Leeb, *The Complete Investor* 4/09).

Spectrum Investor® Update 3/31/09

Category Average	1st Qtr	1 Year	3 Year
Intermediate-Term Bond	0.08	-4.94	1.34
Moderate Allocation	-5.88	-27.92	-8.28
Large Cap Value	-12.73	-39.36	-14.33
Large Cap Blend	-10.01	-38.13	-13.61
Large Cap Growth	-4.58	-35.94	-12.69
Mid Cap Value	-11.31	-38.65	-15.19
Mid Cap Blend	-8.34	-38.73	-15.13
Mid Cap Growth	-4.32	-38.47	-14.71
Small Cap Value	-15.63	-38.57	-17.30
Small Cap Blend	-13.05	-39.07	-17.56
Small Cap Growth	-8.48	-37.62	-17.22
Foreign Large Blend	-13.30	-46.46	-14.74
Real Estate	**-29.54**	**-58.44**	**-26.11**
Natural Resources	-4.96	-49.52	-12.14

Source: Morningstar, 3 yr return is annualized by Morningstar. Past Performance is not an indication of future results.

Six Consecutive Negative Quarters – S&P 500 Index

% Chg	↑5.8	↑1.6	↓3.8	↓9.9	↓3.2	↓8.9	↓22.6	↓11.7
Qtr	2nd	3rd	4th	1st	2nd	3rd	4th	1st
		2007				2008		2009

Source: *USA Today 4/1/09*

According to Brian Wesbury, Chief Economist at First Trust (1/26/09), the economy, especially auto sales, is already operating at unsustainably lower levels. The Federal Highway Administration indicates there are now 240 million light vehicles in the US. In December 2008, light vehicles sold at a rate of 10.3 million annually. This compares to the average vehicle sales of 16 million annually in the US. At that pace, it would take 23.4 years to replace all the cars and trucks now on the road in the US. Normally, the replacement rate for auto sales is about 13 years and even at the bottom of the recession in 1981-1982, it was only 16.2 years. Roughly 5% of cars are scrapped every year, with the average car today being 9.4 years old, a new record. At least 2 million new drivers enter the market each year (1% per year). The auto demand curve is historically a leading indicator out of a recession (*TIME* 4/13/09). This pent-up demand does not mean that the US in on the verge of an immediate boom. However, it does mean that we are already at, or very close to, an economic bottom.

As most of you know, we are avid readers at Christiansen Investments. One of our favorite investment books, ***Stocks for the Long Run* – 4th edition – 2008** by Jeremy Siegel, can help put the current economic conditions into a historical perspective. Jeremy Siegel is a Professor of Finance at the Wharton School of the University of Pennsylvania. Listed below are a few key points from Professor Siegel:

Chapter 1 – Stock and Bond Returns Since 1802

- Professor Siegel's first chapter presents an interview with John J. Raskob, senior financial executive at General Motors, that appeared in a *Ladies' Home Journal* article in the summer of 1929. Mr. Raskob stated that "by investing just $15 per month into common stocks, investors could expect wealth to grow steadily to $80,000 over the next 20 years." Such a return would have been an unprecedented 24% per year. On September 3, 1929 the Dow hit a historic high of 381.17. Seven weeks later, stocks crashed. The next 34 months saw the most devastating decline in share values in US history. On July 8, 1932, when the carnage was finally over, the Dow Jones stood at 41.22, an 89% decline.

  Raskob's advice was ridiculed and denounced for years to come. Professor Siegel stated, "*conventional wisdom holds that Raskob's foolhardy advice epitomizes the mania that periodically overcomes Wall Street. Is the verdict fair? The answer is no. If you calculated the value of Raskob's advice in 1929, patiently investing $15 a month into stocks, you find that his accumulation exceeded that of someone who placed the same money in Treasury Bills after less than four years. By 1949 his stock portfolio would have accumulated almost $9,000, a return of 7.86%, more than double the annual return in bonds. After 30 years, the portfolio would have grown to over $60,000, with an average annual return of 12.7%. Although the returns are not as high as Raskob had projected, the total return of the stock portfolio over 30 years was more than eight times the accumulation in bonds and more than nine times that in Treasury Bills*" (3-4).

  The important theme of the Raskob story is to keep investing new money each month into your 401(k) plan. When it comes to reallocating your assets to a more conservative portfolio, it is more significant to reallocate your existing portfolio. A mistake that many investors make in a bear market is to reallocate 100% of their new money to a stable value fund without rebalancing their existing assets. It should be just the opposite. If you are nervous about the market, reallocate your existing assets to a more conservative position, but continue to dollar cost average by investing a portion of your new money into stocks.

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Chapter 2 – Risk, Return and Portfolio Allocation

- For most long-term investors, treasury inflation protected securities (TIPS) should represent a portion in the fixed income allocation of an investment portfolio. TIPS are investment instruments structured just like regular US Treasury bonds. TIPS pay a low annual coupon rate, but in addition, the principal you have invested adjusts by the amount of the Consumer Price Index (CPI).

  Chapter two in Warren Buffett's favorite book, ***The Intelligent Investor*- 4th edition** by Ben Graham, also talks about the need for inflation-protected securities (aqua) in an investor's portfolio, especially during an inflationary environment. According to Steven Leeb in *The Complete Investor* (4/09), the worldwide stimulus packages present a greater possibility of inflation in the next three to four years.

Chapter 7 – Stocks: Sources and Measures of Market Value

- Research shows there is a remarkable correspondence between earnings yields on stocks and thirty year government bond rates. Many economists refer to this relationship as the "Fed model". The basic idea behind the Fed model is that bonds are the chief alternative to stocks in an investor's portfolio. When bond yields rise above the earnings yield of stocks, stock prices fall because investors shift their portfolios from stocks to bonds. On the other hand, when bond yields fall below earnings yields, investors generally shift from bonds to stocks.

  Currently the yield on stocks is substantially higher than the yield on bonds, which means money should eventually flow from bonds to stocks.

Chapter 8 – The Impact of Economic Growth on Market Valuation and the Coming Age Wave

- When Social Security was passed in 1935, the average retirement age was 69. That age fell to 67 by 1950 and age 62 today. In 2003, for the first time, more Americans chose a reduced Social Security benefit at age 62, rather than a full benefit that starts at 65. Professor Siegel says the trend toward earlier retirement, with improving healthcare, will likely reverse, where our aging population will retire later rather than earlier, especially with the strain on Medicare and Social Security benefits.

Chapter 12 – Stocks and the Business Cycle

- From 1802 to 2006, the average market cycle lasts four years and five months. Professor Siegel's 200-year market cycle study is also a core principal of our Spectrum Investor® Concept. The average recession lasts 19 months. As of April, we are now entering into our 17th month of this recession. The average expansion lasts 34 months.

Chapter 19 – Behavioral Finance and the Psychology of Investing

- Werner De Bondt, Professor from DePaul University, and Richard Thaler, Professor from the University of Chicago, analyzed portfolios of winning and losing stocks over five year intervals. Portfolios that have been winners in the past five years lagged the market by 10% going forward, while the subsequent returns of the losing portfolios beat the market by 30%.

  In other words, in approximately five year intervals, investment styles that have done poorly outperform and investment styles that have done well underperform. Professors De Bondt and Thaler's five year cycle study also represents a core principal of our Spectrum Investor® Concept.

In his closing chapter, Professor Siegel states that if you are particularly anxious about the market sit down and re-read the first two chapters of his book. ***Stocks for the Long Run*** has been a wonderful reference for us and we refer to it often. Past performance is not necessarily an indication of future results.

In summary, we suggest for the average investor, a portfolio of 60% stocks and 40% bonds and if you are more conservative and closer to retirement, 50% stocks and 50% bonds. If you're younger or have a higher tolerance for risk, we suggest a maximum 70% stocks and 30% bonds. Mortgage rates, in the last few days, have hit a 30-year low thanks to the recent purchase of hundreds of billions of low interest-rate mortgages by the Federal Reserve (*WSJ* 4/3/09). **If you have not refinanced your residential mortgage,** you may want to think strongly about doing so since 30-year mortgage rates are now near 5%. If you are struggling to make your home mortgage payment, don't wait for help. Call your lender as soon as possible to work out a solution. Also, late April and early May have traditionally been an excellent time to rebalance your portfolio. For assistance please contact our office at ci@ciadviser.com or call 1-800-242-4735.

We appreciate your business.

Dow: 7609	**10Yr T-Note: 2.67**
NASDAQ: 1528	**Inflation Rate: 0.2%** (2/2009)
S&P 500: 797	**Unemployment Rate: 8.5%**
Barrel of Oil: 49.66	Source: www.bls.gov (2/09)
03/31/09	Source: *USA Today* 4/1/09

2009 401(k) salary deferral limit - $16,500
2009 401(k) age 50 Catch-up limit - $5,500