

MARKET UPDATE — MARCH 13, 2009

Last October, we pointed out our expectation volatility would remain high before settling down and that a stock market bottom would take time for the healing process to play out. We believe, after five months (and a lot of stomach-churning), we are finally completing the bottoming process.

This is the 7th and most difficult bear market in the 33-year history of our firm. Certainly, it is the most painful and we have been surprised that our relatively hefty cash balances, doses of government bonds, preferred stocks, and discounted closed end funds have not done a better job of protecting your portfolio. We confess we did not anticipate the severity of the second half of this bear market and regret not being even more defensive, and resolve that will not happen again.

Evidence for a major market bottom is building. Investor fear is high, money fund cash balances are at record levels, and the Federal Reserve is flooding the financial system with liquidity (money supply growth). All these factors are fuel for a substantial market rebound. The missing piece has been a spark to ignite a rally and change the trend to the upside. Recent progress towards multiple solutions to the banking crisis could be just the spark the market needs.

Our game plan moving forward is to gradually upgrade and re-position pieces of your portfolio to best take advantage of the next market upturn. We do have a checklist or sequence of events that are required to unfold if we are to start the strong move we do see coming. If the checklist develops as expected, we will systematically act to take advantage of the upturn.

We know it has been a rough six months. You have endured the worst market in over 70 years. The nightmare is ending. All of our work, indicators, and experience tell us the bottoming process is nearing completion. This week's market surge could build into a multi-month up-move that will go a long, long way to getting your portfolio healthy once again. As always, please contact us with any questions.

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