



LOTUS GROUP
ADVISORS

Financial Exploration | Investment Advice | Portfolio Management

Mid-Quarter Newsletter

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GIVING THANKS

Since the first Thanksgiving in 1621, Americans have observed a day of giving thanks. Here are some things for which we can all be thankful:

HAVING A JOB

Unemployment rose to 6.5% but that is much lower than the 25% rate during The Great Depression.

FAMILY TIME

With entertainment costs being trimmed, people are spending more quality time with their families.

HEALTH

"The greatest wealth is health." - Virgil

LIVING IN A FREE SOCIETY

What has always made our nation great are our unalienable rights: Life, Liberty and the Pursuit of Happiness.

LGA is thankful for the opportunity to provide our family of Clients with peace of mind and comfort while they enjoy their pursuit of happiness.

www.LGAdvisors.com

Q4 / 2008 Market Update & Commentary

In Q4/08, we experienced not one, but two 20% declines in the US equity markets, with mid-sized rallies after each. With these multiple drops, we moved beyond the average 30% decline in the S&P 500 for the last 12 bear markets, and dipped as low as 52.7% from the peak last year. To-date, this decline ranks as one of the toughest bear markets since WWII, and consequently has inspired massive fear amongst Wall Street, Main Street, and especially the media. In some cases, even traditionally recession-proof asset classes, such as corporate bonds, declined by more than the equity markets. This occurrence in the bond market was analyzed by one statistical firm as a 1 in 729 million year event. Moving to the commodity sector, we witnessed oil declining from \$150 to \$50 per barrel (a 67% decline), while average gasoline prices at the pump were sliced in half from \$4 to \$2 per gallon (and lower in some places). All asset classes participated in the market declines, with the exception of cash (including money markets and US Treasury bills).

To counter these events, the government has unleashed a massive intervention through monetary injections into private companies, and through credit market manipulations. By some estimates, the US government has stimulated the economy by more than \$2 trillion, with the majority having recently been announced and yet to be deployed. Most recently, the Federal Reserve began aggressively buying long-term bonds. This action is causing mortgage rates to rapidly decline and consequently refinance activity to pick up, with the hope that a floor in housing prices arrives shortly. We expect that further economic stimulus will take place, with a massive tax cut and spending plan to be announced and passed by the Obama administration in January '09.

So what does all this mean? A big question swirling through the media and in conversations across America is whether or not we are in the midst of another Great Depression. Do these headlines sound familiar what you are reading and hearing today?

"Among other technical reasons for the break, brokers talked of a sudden burst of heavy selling to establish tax losses, and forced selling on margin accounts" – 1957

"The stock market has scarcely been so shaky since 1929. Middle-class people are being pushed into such demeaning economies as buying clothes at rummage sales" – 1973

"Economic Scene: Is the Depression Lurking" – 1982

"Technically, the crash of 1987 bears an uncanny resemblance to the crash of 1929. The shape and extent of the decline and even the day-to-day movements of stock prices track very closely" – 1987

"The borrowing has to stop. The market drop was a shot between the eyes that had better wake us up to the fact that we can't keep romping forever on borrowed money" – 1987

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CLIENT CASE STUDY

TAKING CONTROL OF PERSONAL FINANCES FOR BUSY PROFESSIONALS

Many working professionals are wondering what they can do to get through this market turmoil; knowing they have years ahead of them, while at the same time feeling the pain of their portfolios going down in value. One such client of ours is a busy lawyer in Palo Alto focused on intellectual property rights and pro bono work for non-profit organizations. Working together, we established her goals and helped make decisions to take control using a roadmap.

- * Ensure that bills were paid on time and finances were easy to manage.
- * Build an actively managed investment portfolio that helps reach long-term goals.
- * Start a savings plan that allowed her to feel good about spending in a bad economy.

Spending Plan

Automatically categorized all of her expenditures over the past 3-6 months (within a few minutes!) to understand how much money was being spent and where.

Debt & Tax Reduction

Identified ways for her to build a rainy day fund, pay off student loans, reduce taxable income through the use of a 401K and IRA, and save for buying a condo.

Automated Bill Paying

Implemented an automated bill paying service so that all her payments were made based on a set of intelligent rules (e.g. auto pay this bill as long as it's less than \$200).

Investment Portfolio

Developed her investment objectives and risk tolerance level combined with a custom managed portfolio strategy that included her 401(k).

Since making the decision to take control of her personal finances, the market has been down 21% while her savings have grown 15%. With her automated savings program, our client is making new investments in a very inexpensive market, investments that will bear fruit over the course of her long-term time horizon. Additionally, all her bills are now paid automatically on time so that she can have peace of mind knowing that the details of her personal finances are under control.

At LotusGroup Advisors, it's all about exceeding expectations and "thrilling" our clients by empowering them.

Please feel free to contact us if you have similar needs, or you know of a friend or family member in a similar situation. We are always happy to meet free of charge, and only move forward together after deciding if a mutually good fit exists. Referrals are the life-blood of our business, so we appreciate your trusted recommendations, and we promise to do our best in helping you "look good" for having shared our name with others.

Market Update (continued)

While the media improves their ratings with comparisons to the Great Depression, we have heard these exhortations before, and should rely more on fact than on sensationalism to form our view of the immediate future. What we do know is that the Great Depression was a once-in-a-lifetime event that not only included a credit crisis and an economic contraction, but also a series of massive governmental policy mistakes. In the 30s, the Fed raised interest rates, the Treasury tightened the money supply, and global trading partners increased protectionist tariffs. All of these actions caused a massive economic contraction, with a 43-month stock market decline, a halving of national incomes, and an

unemployment rate at a whopping 25%. Contrast that scenario with today where the Fed has reduced the short-term rate to a low 1% level, and has lent out over a trillion dollars. Additionally, Congress and The Treasury have been extremely loose with the authorization of over \$850 billion to jumpstart economic activity. Finally, countries around the globe have not only acted in a coordinated fashion to provide stimulus, but have also publicly pledged to fight protectionism. These policy responses should help to re-inflate global economies with expectations of a few quarters of GDP contraction and unemployment rates maxing out in the 7.5 – 8.0% range. Our economic recession has been and will continue to be difficult on everyday Americans, but there is a low likelihood of us facing another Depression.



Personal Investment

Tips for Recessionary Times and Surviving Corporate Cutbacks

While recessions can be temporarily painful to portfolios, we have frequently discussed how they can be beneficial to long-term investors by providing deep discounts for new investments. Economically, recessions allow companies to reduce their workforce to an appropriate level for lowered revenues. These companies then tend to delay rehiring once the economy picks back up. This phenomenon results in increased productivity gains and profits, and it lays the groundwork for the next bull market in equities. As an individual, the key is to stay productive, remain up-to-date with your skills, and ensure a positive cash flow that enables savings that can be invested at inexpensive levels. Five to ten years from now we will be salivating for today's prices, but the only way to benefit from them is to remain productive and to continue investing throughout.

Our clients span the full spectrum of age, career, and wealth. If you are one who may be worried about the stability of your job situation, please consider the following advanced tips:

- Take initiative to get things done that look like they need to get done, even if it isn't in your immediate area (not at the expense of completing your own job).
- Add significant value to assignments, by thinking specifically about how to increase revenues or how to identify & implement cost reduction opportunities.
- Align yourself with a successful mentor, and ensure you are on their agenda. If you are in a dead-end situation, begin networking to other areas in the business and offer to do a project for them on your own free time.
- If you are looking for something better, don't discard what you already have, but rather work towards something better in parallel. Do not act entitled.
- Consider starting a business on the side based on the expertise that you have in your given field or with a hobby that you love. If you ensure that startup costs are minimal, there can be a large potential upside with minimal downside. In addition to higher income, there are tax benefits that come with owning your own business.
- If you already own your own business, recessions can offer the opportunity to streamline your cost structure, while also pursuing new clientele that may be underserved by weaker competitors in your industry.

Where possible, we are happy to provide guidance or connections within our network to help you continue moving in the right direction. If you are thinking about starting a business or already have one, we may be able to help you review some tax saving investment strategies that are available only to business owners.

Warm Regards,

Andy Seth & Raphael Martorello

LotusGroup Advisors Management Team

QUESTIONS?

As always, we are available to discuss any questions you may have regarding our progress towards your financial and investment objectives.

REFERRALS?

We appreciate your referrals as they are the lifeline to our business. Please let your family, friends and colleagues know about our wealth management services.

Contact Your Advisor or Our Main Office

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