



**LOTUS GROUP**

**A D V I S O R S**

Financial Exploration | Investment Advice | Portfolio Management

# Quarterly Report

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## HAPPY NEW YEAR!

In March, we held our second Webinar, hosted by LotusGroup’s Chief Investment Strategist. If you haven’t already, we encourage you to watch the Webinar which covers:

### PAST

Here we discuss how our Client portfolios have performed relative to the markets.

### PRESENT

We answer the most often asked question, “What is going on in the markets today?” by providing insights into the markets and our strategies.

### FUTURE

While no one can accurately predict the market, we do have a forecast and share what we believe the future will bring for investment markets.

[www.LGAdvisors.com/podcasts](http://www.LGAdvisors.com/podcasts)

We’re proud to have kept all (100%) our clients during these uncertain times as they focus on using our tools to reach their goals.

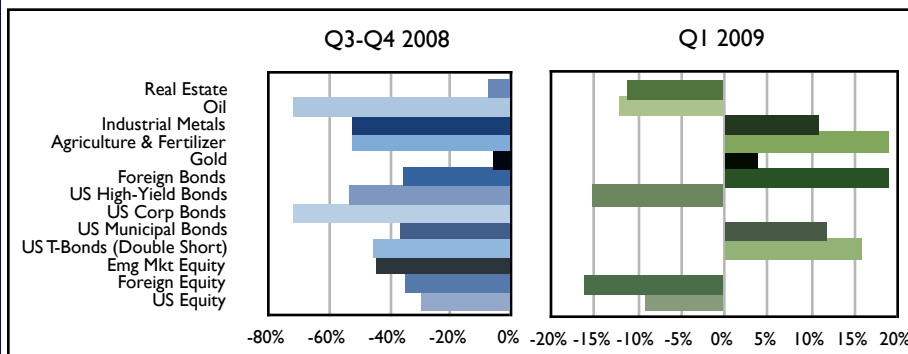
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## Market Recap - Q1, 2009

Once again, we start our newsletter with a discussion of the see-saw swings in the equity markets that have been our reality since late 2008. At the mid-quarter mark, the bears had taken the upper-hand, driving markets lower during January and February. Since then, the bulls have taken control, sending markets sharply higher, albeit not making up for the losses from the first two months of the quarter. Pessimists point to the ongoing contraction of credit (deflation) and the deterioration of the economy (declining GDP and increasing levels of unemployment), while optimists point to attractive valuations for investments, government stimulus, and precedents for market bottoms based on financial metrics, ratios, and the historical durations of previous bear markets.

Most recently, a relaxation of “mark-to-market” accounting rules has provided a boost to the financial sector as well as to companies that rely on their credit. The relaxation of these rules will mean that banks will not have to write-down as much of their “toxic” assets to the “marked” levels that previously distressed companies sold them for. In some cases, where the banks were aggressive in writing down assets in previous quarters, they may actually be writing back up the prices on these assets. While markets have responded positively to this move, a potential negative implication is that banks will be able to obscure what their assets are truly worth, creating more uncertainty in the valuation of their shares. However, the net result is that these banks will have the leeway to pay off toxic loans through operating profits generated over the next 5-10 years, potentially protecting them from bankruptcy or insolvency today. Despite negative equity market returns, diversification of portfolios paid off during Q1 – 2009 as the market began to function more normally than it did during the crash of late 2008 (see Chart 1).

**Chart 1: Returns by Asset Class: Diversification Benefits Return**



Furthermore, markets appear to be more appropriately valuing assets now than they did during late 2008. Investments are no longer being thrown-out due to forced investor liquidations, but rather are being valued based on more traditional metrics and future expectations. Market volatility is a function of this ongoing valuation process, as investors have difficulty trying to ascertain what may happen for each asset class in the immediate and longer-term future. However, confidence has improved, and while there is great uncertainty about the near-term economy, investors are jumping back in to specific areas they deem attractive rather than simply sitting on the sidelines and watching investments get cheaper and cheaper. This is a critical step in a bottoming and recovery process, and while we may have a while to go, it is a good sign.

## Client Portfolio Review

Client portfolios significantly outperformed their relative benchmarks during Q1—2009. With the S&P 500 down 11.67% in the quarter, and other equity markets suffering as well, we were pleased to end the quarter with only a very modest decline for most client portfolios. Relative outperformance was driven by our highly diversified holdings, turn upwards, and a heavy dose of widely fluctuated up and down. As the range, we will continue to look for the upper limits and buying in the depths. its way into a new bull market by breaking

*For more details on our market outlook and portfolio positioning, please download our most recent Webinar:*  
[www.LGAdvisors.com/podcasts](http://www.LGAdvisors.com/podcasts)

some deep value investments beginning to rebalancing and active trading as the markets fluctuate within the current trading opportunities to exploit, selling as we reach Ultimately, the market will bottom and find out of range.

Despite a nice quarterly outperformance, this is too short of a time period to measure the effectiveness of our investment results. We provide performance figures on a quarterly basis, but anything can happen in such a short time period, evidenced by the current 20%+ price swings in recent months. Depending on what date the end of quarter falls on, we could be showing a loss or a gain, yet the long-term implications of the portfolio would be unchanged relative to this volatility. Even over a mid-term time period (6-18 months), results can be difficult to predict or analyze based on the numerous factors that affect the market and the potential for undervalued investments to remain in the doldrums. However, over the long-term (5-10 years and beyond), there is sufficient evidence that capital markets evolve, create, become more productive, and increase dramatically in a compounded manner. Only in the long-term can one evaluate whether they have done what is necessary to achieve their goals. This discussion does not mean to excuse the short-term, as there are many activities that need to take place to build towards long-term success. However, the realization of those benefits can take years to achieve and there is no straight line from start to finish in investing.

## Consumer Benefits of Recession

While it is challenging to watch your investment portfolios decline during recessions, there are some major consumer benefits that can be achieved if you can keep up your cash flow from employment or business endeavors. Most notably, your costs should decline as goods and services you purchase become less expensive. We have compiled a list of major spending categories for most consumers, and their relative 12 month price change in Chart 2 below:

**Chart 2: Cashing in on “Deals” Provided by Recent Recession**

Category	Proxy	12 Month Change
Housing	30-year conventional loan rates	-13%
Transportation	Consumer Price Index	-10%
Food	CRB Index: Foodstuffs	-22%
Medical Care	Consumer Price Index: Medical Care	+3%
Utilities	Consumer Price Index: Gasoline	-35%
Clothes	Bureau of Labor Statistics: Apparel Index	+1%
Work Tools	Consumer Price Index: Computers & Peripherals	-24%
Investments	S&P 500	-40%

Most major spending categories are down significantly, which means that you should be able to get a similar basket of products and services today for far less money than you paid for them a year or two ago. This should allow for you to reduce your budget, providing a cushion to your family's cash flow if incomes have declined. If you have kept your family income levels stable, or been fortunate enough to increase them, the current recession should allow you the opportunity to actually save more. You may not be able to control the timing and duration of our current recession, but you can control whether you are saving more through proper budgeting and restraint.

We have put the category of investments on the spending list as well, since we believe this is one of the best places that you could allocate any excess savings realized through lower costs. In the last 12 months, we have seen a 40% price reduction in the US equity markets (a 55% reduction if you consider the 18-month peak-to-trough return).



## Consumer Benefits of Recession (continued)

While credit stress, write-offs, and reduced profits have caused the current downturn, a better measure of long-term investment price levels can be approximated using trailing 10 year profits, which average out peaks and troughs, and point to a higher potential price level than exists today. It may be a while before we get back to the peaks of August 2007, but certainly investments are a “deal” right now, and we expect that they will move appreciably higher over the next 5-10 years as profit levels revert back to average levels.

We signaled caution during the investment euphoria of spring, summer, and fall 2007. However, we now believe that you should be participating more heavily at discounted investment price levels, despite the high level of pessimism. Over the long-term, it pays to be fearful when others are greedy and greedy when others are fearful. Please contact us for assistance if you would like help in your budgeting process, or would like to increase your auto investment savings plan(s) at this time.

As always, we encourage you to pursue life’s dreams as we manage, protect, and grow your wealth.

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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