

GDP growth does not necessarily mean the recession is over—particularly when that growth was manipulated by government spending that cannot continue indefinitely.

As a result of these economic realities (and many technical indicators), we still believe that market risk remains unacceptably

high for most investors. That is especially true for those who are at or near retirement.

Yet in spite of all these negative factors, major stocks indices have staged a significant rally. This divergent advance could continue, or it could end tomorrow.

—Flint Stephens

Mr. Stephens is marketing director and a financial advisor for Strategis Financial Group. He has been a writer and editor for numerous investment publications. He has a masters degree in communications from Brigham Young University.

Your fees buy more than just investment trading

Investors are primarily concerned about the performance of their accounts. That makes perfect sense because ultimately an investor needs to meet his or her long-term financial objectives. But as your investment advisor, Strategis Financial Group provides services that include more than performance.

Daily investment monitoring and management

We track the financial markets and individual investment options on a daily basis. Recent high volatility means positions can change significantly in just a day or two. We move your accounts in and out of positions as needed in accordance with your risk tolerance and financial goals.

Consultation and assessment

We want to understand the financial needs and objectives of our clients. We ask every potential client to complete a risk assessment evaluation and we allocate their investments accordingly.

We are also available to consult with you about other assets you own—even those not invested with Strategis. We can provide you with an assessment of all your financial holdings. If your situation changes, we can adjust the model and show you how those changes impact your lifetime plan.

Ongoing client communication

We want you to know what we are thinking about the financial markets at any given time. To accomplish this, we provide a [weekly online market commentary](#). You can access this information at our web site: [www.sfginvest.com](#) or at

[www.marketowl.com](#). You can also have the information sent to you by email.

In addition, we publish this [quarterly newsletter](#), sent to your mailbox and also available at our web site.

Speaking of web sites, ours has links to most of the critical economic reports you hear about through financial media, including the Federal Reserve, the Commerce Department, and the U.S. Bureau of Economic Research.

Strategies for risk protection

To achieve lifetime investment objectives, avoiding losses is just as crucial as capturing gains. Strategis adheres to an active management philosophy designed to protect your investments from major market downturns. We also help you find the proper allocation for your risk tolerance level. That means you can focus on other things that are important to you rather than constantly worrying about the financial markets.

A variety of conservative products

In addition to our proprietary actively managed strategies, Strategis offers third-party products that offer fixed returns. Call and speak to an advisor if you are interested.

Unlimited access to your advisor

Any time you want information about your accounts or if you just want to talk about your investment goals, an advisor can be reached at **800-279-3377** or by sending an email.



Volatility still at levels that accompany high risk

Because the stock market has risen substantially since bottoming in March 2009, some clients have asked why we still have most of our managed assets in money market funds.

In hindsight, everyone who owns any investments would have liked to have jumped into the market at the March bottom. But unfortunately, at the time our indicators still showed that the risk level of being invested was very high.

These are the same indicators that helped us avoid the market meltdown that began in October 2008. Many of these same indicators are still showing that market risk remains at levels much higher

than normal.

Measuring market volatility is one of the more commonly used methods to assess market risk. The presumption is that risk is much higher when the market is more volatile.

One tool used to measure risk is an index called the “VIX.” According to a description in Wikipedia, “VIX is the ticker symbol for the Chicago Board Options Exchange Volatility Index, a popular measure of the implied volatility of S&P 500 index options. A high value corresponds to a more volatile market and therefore more costly options. ... Often referred to as the fear index, it represents one measure of the market’s

expectation of volatility over the next 30 day period.”

In other words, as traders anticipate higher volatility, the value of the VIX rises. The title of “fear index” results because high volatility causes fear or anxiety for traders and investors.

Below is a chart showing the level of VIX over the past five years. For most of 2005 and 2006—years that were fairly normal in terms of market volatility, the VIX spent most of its time hovering between 10 and 15. Volatility increased dramatically in 2007 and VIX twice peaked at higher than 30. In 2008 the VIX soared to a never-before-seen level of 80.

CDs maturing?

If you have CDs that are maturing and you are not satisfied with current CD rates of return, Strategis offers some conservative alternatives. To learn if one of these products might be suitable for your situation, please call and speak to a Strategis advisor.



This year has been interesting. Many media and government sources are reporting that the recession is over and the economy is back on track. The S&P 500 so far has a double-digit gain for 2009.

But in October the VIX again topped 30 and is even now hovering above 20. The blue line shows that recently the level was as high as levels that prompted serious concern in 2007 and 2008.

Obviously many traders are still concerned about the risk and volatility of this market. VIX eclipsed its current level only twice in 2007—the second of those instances coincided with the beginning of the worst bear market in recent history.

Another simple way to examine market volatility is to simply compare monthly gains or losses of the S&P 500 over the past five years. As the chart at right shows, monthly gains and losses over the past two years have exhibited dramatic swings when compared to the three previous years.

While March, April and May of 2009 produced three months of solid gains, many investors would not have been comfortable about being in the market during that period. Another look at the VIX



chart shows that while the VIX was dropping then, it did not fall below 30 until late summer.

Returns in June 2005, 2006 and 2009 were almost non-existent and do not show up on the chart.

Many investors have short memories. After a few months of market gains, the times of significant losses are easily forgotten. But successful lifetime investing is a marathon, not a sprint.

Right now many investors with money on the sidelines might feel that a rising market is leaving them behind. In reality, since July

major stock indices have gained very little. In October the S&P 500 lost 2% and many technical indicators like relative strength are showing that positive momentum is failing. Bullish sentiment is at an extremely high level—something that usually occurs at market tops.

And as we have mentioned repeatedly, economic fundamentals such as unemployment simply

Investment Company Act, Rule 3a-4

As your investment advisor, we are required by the Investment Company Act, Rule 3a-4, to make recommendations in accordance with your individual needs and financial circumstances. We must also periodically check to ensure that these needs and circumstances have not changed. So if there have been changes in your financial circumstances, please contact your advisor at 1-800-279-3377. We will be happy to make any necessary adjustments in your portfolio selection.

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do not support a continued major market rally.

The real jobless picture

In early November the government reported that the nation's jobless rate reached 10.2% in October. This is only the second time in the post-World War II period that the rate surpassed 10 percent. In a speech given in early November, Janet Yellen, president of the Federal Reserve Bank of San Francisco, said: "With such a slow rebound, unemployment could well stay high for several years to come."

What most people don't know is that the government actually keeps track of several unemployment rates. Quantified and maintained by the U.S. Bureau of Labor Statistics, these rates are labeled U1 through U6.

The most commonly reported unemployment number is U3. U3 does not include discouraged workers (those who have quit looking for work), marginally attached workers, or those who for economic reasons have been reduced to part-time employment. U6 includes all of those categories as well as those included in U3.

The October U6 unemployment rate was 17.5%—substantially higher than the October U3 rate of 10.2%. But there are experts who believe that even the U6 number is not an accurate representation of all who are unemployed.

For example, Walter J. "John" Williams of Shadow Government Statistics, American Business Analytics & Research LLC, writes a newsletter that "exposes and analyzes flaws in current U.S. government economic data and reporting." According to his numbers, the true U.S. unemployment rate is currently about 22%.

"With such a slow rebound, unemployment could well stay high for several years to come."

As an example of how such a discrepancy can exist, consider a personal example. My son-in-law is self employed. He builds and installs countertops and cabinets. While he is still in business, it has been much harder to find jobs over the past year. When he does get a call for a bid, he must significantly cut his profit margin to be competitive.

In his circle of associates in the construction trades, he knows of several who are in similar circumstances. A few are making a fraction of the income they had two years ago and working only a few days each month. Yet these types of workers are not showing up in any unemployment numbers.

While some economists claim that unemployment is a lagging indicator, almost all agree that no substantive economic recovery can persist for long without significant job creation.

Sales numbers also weak

Unemployment is only one of the fundamental factors showing that the economy is still very weak. Sales remain sluggish in spite of reports that state otherwise.

John Mauldin, an economic expert who writes a free weekly newsletter called Frontline Thoughts, notes that the best way to track actual retail sales numbers is by sales tax revenue.

Traditional year-over-year store sales can be skewed during a

recession because stores that survive benefit from the demise of stores that close. In his Nov. 13 newsletter, Mauldin wrote:

"Sales at Wal-Mart stores slipped by 0.4% in the third quarter. Actual government figures show that retail sales were down 1.5% in September from the previous month and 5.8% year-over-year. So how do we keep seeing headlines about retail sales being up, as unemployment keeps rising?"

"Remember that such reports are usually based on surveys, and generally cover mid-sized and up retailers, leaving out smaller businesses. Further, if you are a retail chain that has closed 10% of its stores, the remaining stores should in theory benefit from getting your loyal customers into them."

He went on to write that in talking with an associate about business the man said sales were up and things were improving. When Mauldin asked why, the man explained that many of his competitors were no longer in business.

Recession threat not over

In a recent interview with Fox News, President Obama is quoted as saying: "I think it is important, though, to recognize if we keep on adding to the debt, even in the midst of this recovery, that at some point, people could lose confidence in the U.S. economy in a way that could actually lead to a double-dip recession."

As noted earlier, we at Strategis think it is folly to use the word "recovery" when unemployment remains high, consumer spending is falling, and many state governments are facing enormous revenue shortfalls.

A single quarter of positive