



**THE MDE GROUP, INC.**

Your family's most trusted advisor

# Memo

To: MDE Clients & Friends  
From: The MDE Group, Inc.  
Date: February 20, 2009  
Re: **Weathering Continued Market Turmoil**

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As the markets again test their October lows, we wanted to provide you with a brief update as to how this most recent market slide has affected MDE clients. Through February 19, the S&P 500 has declined by 13.36% since the beginning of the year. In contrast, MDE clients in the aggregate are down less than one third of this amount. This estimate is based upon our aggregate firm assets. However, since MDE customizes each client's portfolio based upon their particular circumstances and risk tolerance, each client's asset allocation and resulting performance will be somewhat different.

While any loss is not acceptable, given the extremely difficult and completely unpredictable environment, we believe our portfolios are currently positioned to buffer further market declines while providing the opportunity to participate in any potential market rebound. The defensive nature of the portfolio is largely a result of our reallocation of some 20% of our equity position into hedged mutual funds in September and a further reallocation of some 35% of the remaining equity position to cash in early December. We have wanted to engage in a further reallocation of the portfolio into a series of high yielding assets which would allow us to be paid while we await a market turn around. However, the markets have been reacting, in the extreme, to the shifting policy responses articulated by Washington on almost a daily basis. Given this continued uncertainty, and the possible impact on one or more of these proposed investments, we believe prudence dictates the delay in implementation of these investments.

The year started with optimism brought on by the prospect of change that a new administration would bring to the country. However, after rallying some 3.4% over the first three trading days of the year, the market has been on a roller coaster ride with a downward trajectory since. These moves have been punctuated by the market's negative response to several policy announcements. Specifically, the market was very disappointed with Treasury Secretary Geithner's failure to provide details on his plan to ameliorate the banking crisis that is at the heart of our financial woes. The market was further disappointed by the Stimulus Bill rushed through Congress and signed on Tuesday, February 17 since it perceives insufficient near term stimulus and too much long term debt overhang. Finally, the market had a very tepid response to the President's announcement on Wednesday, February 18 to put a floor under housing prices by attempting to curtail mortgage foreclosures.

The market is now reflecting its fears that the much vaunted policy responses may, in fact, be insufficient to provide much near term relief to the economy. Financial markets in general deplore uncertainty and are anxiously awaiting the promised details of Secretary Geithner's bank rescue plan which are promised in a matter of weeks. In the interim, rumors fan the flame of fears that potential nationalization of some of our major banks will have negative long term ramifications and a detrimental impact on our capitalist system. It is worth noting that our allocation to banks as a percentage of total assets under management is less than 1%.

While we cannot pick the optimum timing to execute our planned portfolio changes which we initially outlined in our January 14 Webinar, we plan to selectively begin to implement some of these investments over the near term while we await more clarity on the potential impact that policy responses may have on other investments. However, given continued uncertainty, we plan to implement any changes on a dollar cost averaging basis over several months. Your Wealth Management Strategist will communicate the specific changes proposed to your portfolio in the coming weeks.