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To Our Valued Clients & Friends:

Our "friend" Nero fiddled while Rome burned, and I am beginning to believe that Washington and Wall Street may be doing the same. It seems as though they want us to believe that all is well, while the flames burn away at a questionable economic recovery.

Washington seems far more focused on politics and entitlements than on an economic recovery. The healthcare plan, perhaps well intentioned, has not addressed the root of the long-term problem of healthcare: rapidly increasing cost. While I am sure that the average worker desires affordable healthcare, I would bet that a job and job security rank a bit higher in regard to desirability.

The new healthcare bill, read and understood by so few, appears to add to the financial burden of small businesses while transferring enormous and unfunded



costs to state governments. While the signing of the bill certainly provided short-term photo opportunities, the creation of a new entitlement program seems to add a heavy burden to an already struggling economy. My favorite political cartoon in regard to this issue is President Obama asking a citizen what he desires three separate times. In each cartoon frame the citizen responds that he needs a job. The final frame emphasizes the President's insistence that what the

citizen really needs is Healthcare Reform.

The Economy

Our end-of-year letter suggested that we thought the markets could end the year higher in 2010. Nevertheless, I suggested that we could experience a downturn before we headed higher. While the markets did "correct" by 8% during the quarter, we approach early April with the markets up approximately 4.4%. Additionally, the "talking heads" are suggesting that



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the market may continue to rise by as much as another 8% for the duration of year, and since the market is not terribly overpriced, they may be correct. However, I have a few concerns that I want to mention, which have resulted in our maintaining relatively low equity exposure in our portfolios.

Unemployment

The economy's growth can only be driven by stimulus packages and extremely low interest rates for so long before the natural order of economics begin to overwhelm these temporary measures. With an economy that has been historically driven by the consumer, an underemployment rate of almost 20% will begin to take its toll on a fragile economy.

Improved corporate profitability, which has brought the market back this far, is perhaps both temporary and illusory. Corporations have cut expenses to the bone, and the repackaging of products to favor corporations will meet natural resistance at some point in the future. Corporations have been rebuilding inventories on the backs of temporary

employees, while manufacturers have been delivering smaller amounts of their product without reducing cost (i.e. Both Coca-Cola and Pepsi have reduced the size of their standard bottle from 20 oz. to 16 oz. without reducing the price. Unless the consumer holds both these bottles side-by-side, it is difficult to detect the action that has been taken. Mars candy, following suit, has reduced its candy bar size from 2 oz. to 1.7 oz. and actually increased the price slightly). While these "slights of hand" are interesting, more intriguing is that while the consumer is receiving less, there is no upward pressure on inflation because prices are remaining the same.

You may recall that several letters ago we stressed concern that while living expenses were going up, the government continued to tell us that inflation was under control. There may be an interesting manipulation of the inflationary index, but the bottom line is that it costs more to live today than it did last year. Try telling someone living on Social Security, who did not receive an increase in their Social Security check

because the index "said" there was no increase in the cost of living, that it cost the same today to pay for normal expenses as it did last year.

Energy Cost

Fill your tank up this week? Gas prices are brushing up against the \$3 per gallon mark, and I will buy you lunch if gas prices do not peak well above that figure this summer. I mentioned this to one of our energy advisors this week and suggested that it took \$4 per gallon for the consumer to yell, "Uncle," during the last price upswing. He quickly cautioned me that the economy is weaker now than it was several years ago, and he predicted that the price point that will alter consumers' spending and driving habits will now be below \$3.50 per gallon.

Where We Stand

I do not think we should underestimate the impact the last 18 months has had on our country. Most of us are quite sheltered from all of these factors. Medical professionals, business owners, and all of us that are blessed with the rewards of hard work should be aware of the shifts in spending and the

deterioration of market segments.

I mentioned last quarter that two houses, both within 100 yards of our front driveway, were in foreclosure. They are still there, and no offers on the properties have been made. The market values within the neighborhood now reflect these foreclosures.

As many of you know, Beth and I live in Birmingham and enjoy belonging to a nice country club with about 400 members. Over 50 of these members have tendered their memberships this year so that they will no longer have to pay dues. The club further anticipates that an additional 50 members may tender their memberships over the next 24 months, thus suggesting that even those that appear to be more affluent are not exempt from the problems of today's economy.

Convenient food store sales, which are an intriguing indicator of buying habits, report that the average breakfast sale has not rebounded to pre-recession totals. While workers may be returning to work, though perhaps assigned temporary status, their purchases at

convenient stores are more modest on their way to work.

Beer sales have fallen only slightly, but with a major shift to lower priced non-premium beer. Loose tobacco sales have improved dramatically, because individuals can roll their own cigarettes more cheaply, while prepackaged cigarette sales have fallen.

These observations are pretty focused, so I would like to back away a bit and close with a few larger issues.

Many of us are concerned that the combination of Federal spending, along with the new healthcare entitlement, will lead to higher tax rates on the Federal level. I believe we should also be prepared to discover that our incomes might come under attack from the state level as well. Most states are broke, and they cannot print money like the Federal government can.

A recent Barron's article highlighted that 80% of state workers, teachers, policemen, and firemen enjoy the benefits of Defined Benefit Pension programs, which are pensions that have been mostly abandoned by the

corporate world because of their excessive cost when compared to Defined Contribution and 401K plans. A state review reflects that all but six states are underfunded in regard to their pension obligation. The unfunded figures mentioned are not small: Illinois is \$54.4 billion dollars underfunded; Massachusetts, \$21 billion; and New Jersey, \$34 billion. As for the smaller states, Alabama is \$9.2 billion underfunded; Mississippi, \$8 billion; and Kentucky, \$12.3 billion.

These are huge numbers and where do you think that money is going to have to come from? There will need to be cuts in services, and I believe there will be a direct frontal attack on anyone that makes over \$100,000 a year to raise their state tax rate.

While the economy may be able to limp along, with high underemployment, on the backs of the wealthy, what do you think the long-term economic effect will be on higher wage earnings being taxed at higher levels on both the Federal and state level?

While state workers seem to continue to enjoy attractive



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retirements, a recent study by the Employee Benefit Research Institute sounded an alarm, as most workers, not covered by such generous pensions, are not doing much to save for retirement. As a matter of fact, "a staggering 27% of workers have saved less than \$1,000 toward retirement."

I suppose we can all hope that if Walmart continues to expand, there will be more openings for senior greeters at the doors of these new

stores. For the rest of us, we need to start seriously considering increasing our savings rate.

Well, it is thoughts like these that contribute to our conservative design. I do have confidence that the market will continue to increase in value, ever so slightly in 2010 and that by taking advantage of 401K plans and other tax-deductible methods of placing funds away, we can provide ourselves with a sound retirement.

Nevertheless, I believe that we need to be politically aware that the gap between those who have and those who have not will continue to increase, perhaps at an accelerated rate, and the result of that increasingly large gap could possibly lead to an attack on the accumulated wealth of those who have saved.

Warmest Regards,

M. Brooks Clark

If you would like to have a copy of your consolidated statement from Clark Financial Advisors, listing all your accounts and their current values, please call or email Beth Cosker at Beth@ClarkFinancialAdvisors.com, and she will provide you with an up-to-the-moment evaluation of all your accounts.

The Numbers	Dec. 31, 2009 Index	March 31, 2010 Year-To-Date	1st Quarter Change %	YTD % Change
Dow Jones Industrial	10,428	10,856	4.1	4.1
S&P 500	1,115	1,169	4.8	4.8
NASDAQ	2,269	2,397	5.6	5.6
Russell Value	566	601	6.1	6.1
Russell Growth	500	521	4.2	4.2
Treasury Index	90	89	(0.1)	(0.1)
Real Estate Index	46	50	8.6	8.6

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