

Contact Us:

4128 Crosshaven Drive
P.O. Box 43828
Birmingham, AL 35243

(205) 298-8480
Birmingham

(256) 237-0000
Anniston

(800) 791-4087

Email Us:

Brooks Clark-
Brooks@
ClarkFinancialAdvisors.com

Elizabeth Levant-
Elizabeth@
ClarkFinancialAdvisors.com

Jennifer Gibbs-
Jennifer@
ClarkFinancialAdvisors.com

Beth Cosker-
Beth@
ClarkFinancialAdvisors.com

To Our Valued Clients & Friends:

snooker – (verb) to pull a fast one, play a trick on, hose, sucker.

(Snooker, when used as a noun is an innocent parlor game played on a billiard table with 22 colored balls. Snooker, used as a verb, loses its innocence!)



In the closing days of the Bush administration, Secretary of the Treasury Hank Paulson, a Goldman Sachs* alumni, brought a three-page memo to Congress asking for \$750 billion to support America's financial industry. Little detail was offered in the brief memo, but the gist was that the government would use these funds to purchase "toxic assets" from troubled institutions to insure that the flow of available credit to the economy would not be disrupted. The three-page memo "did not fly," as Congress, never known for its brevity, expanded the bill to over 1,000 pages, called

the package the "Troubled Asset Relief Program" (TARP) and added \$250 billion more. (Congress likes to work in round numbers.)

The Result

2009 has proven to be a difficult year for Middle America, with unemployment climbing to over 10% (17% when the underemployed are counted). Home foreclosures have skyrocketed. And, while the rate of new unemployed Americans has slowed, 2010 will probably not be a banner year for hiring. As for the availability of credit, home equity lines, credit card limits, and small business loans

have been slashed or cancelled all together. Oh well, so much for Middle America.

In Contrast

Corporate America enjoyed a very different 2009, especially those terribly distressed banks. In an amazingly quick turn-around of fortunes, the banks turned profitable by mid-year. Stock prices rebounded, sometimes by more than 50%, and a record level of employee bonuses were suddenly being accrued and now await distribution.

Goldman Sachs became a



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"corporate bank" in order to take advantage of the TARP program, received billions of dollars from the bailout package, but did not make a single loan to anyone beyond their own trading account. Their activities seemed especially efficient and resulted in exceptional profitability, culminating in over \$16 billion being accrued for employee bonuses. This is the equivalent of over \$700,000 for every Goldman Sachs employee.

Unfortunately for the banks, TARP had a provision placing restrictions on executive pay and bonuses while TARP funds were still outstanding to the banks. As a result, most of the banks that took advantage of the low cost of funds provided by TARP have now repaid their TARP funds back to the Treasury, thus freeing themselves from executive pay restrictions. Even troubled Citibank has now miraculously repaid its TARP funds. Citibank, perhaps the most troubled of all the large banks, issued over \$20 billion in new stock this week at a price barely over \$3 a share so that they might free themselves from the pay restrictions. The bank,

troubled as it is, debited its cash and reserves for over \$20 billion and issued the \$20 billion of stock, which resulted in substantial dilution to existing stockholders, in order to get out from under the pay restrictions. The bank said they did not want to be perceived as the only money-center bank still participating in the TARP program. Hardly a sound reason for endangering the long-term survival of the bank and one heck of a way to treat existing shareholders!

Ladies and Gentlemen, as tax payers and as stockholders, we have been snookered. We have paid to underwrite failing financial institutions that apparently felt little responsibly or obligation to insure that credit continued to be available to mid-corporate America. Most of the TARP dollars were directed at money-center banks and large regional institutions, while smaller community banks were left out in the cold. Many of these small community banks, while healthy, have absorbed substantial deposits from the runoff of troubled regional banks. As a result, their net worth, or capital, is stretched to the limit, resulting in their

being unable to make new loans, as they would breach their required capital percentage if they took on new loan business.

Most of the large financial institutions that have enjoyed substantial earnings this year appear less interested in retaining earnings and rebuilding their capital base than sending those record earnings back to the government to repay their TARP funds, allowing them to be free of pay restrictions and Federal governance. By not retaining current earnings along with the proceeds from new stock sales, the money-center banks may find themselves under-capitalized in light of the current state of consumer credit. This could possibly lead to banks returning to the Fed to ask for an additional handout. If this happens, as taxpayers, we need to say, "Close your doors." (There will be new banks formed and capitalized to fill the void.)

Now that I have started our end-of-the-year letter on such a sour note, I will make a 180° turn and say that the investment markets may be positioned for a continued positive return in 2010, as corporate America appears

to be growing stronger despite the actions of the government. In a few years, we may look back on early 2009 and surmise that this was a time when corporate America and the government over-reacted, resulting in a panic by consumers, which lead to the economy tumbling into the "Great Recession."

The Economy

Because of this panic, the economy quickly contracted, reflecting an annualized decline in gross domestic product (GDP) of almost 6%. In less than a year, the economy has rebounded, reflecting positive growth at an annualized rate of 2%. This shift from a negative 6% to a positive 2%, or an 8% swing, in such a short time would be heralded by economists if it were not for all the distractions coming out of Washington (healthcare debate, etc.)

Consumers, at least the 80% that are fully employed, appear to have the energy, pocket depth, and a new found feeling of security about their jobs, which may allow the economy to continue to rebound. Those with wealth have watched their investment portfolios

and 401k accounts rebound and are now ready to spend. (Those with an income of over \$50,000 a year are projected to have spent 50% more this holiday season than last year according to a CNBC poll.) Those who are less wealthy are at least less fearful of their job security as job losses have slowed down dramatically (from 700,000 job losses per month to only 11,000 last month).

Will we return to the pre-recession economy? NO! The air has been released from the housing bubble, and corporations have cut billions of dollars in labor and material costs during this repositioning. The result is a more realistic and resistant consumer and an industry base that can now squeeze out profitability at lower sales levels. This combination of reduced demand, lower cost structure and record-breaking productivity will serve corporate America and the investment markets well. Nevertheless, we must not be blind to the current administration's efforts to "rebuild the economy" by putting people back to work through infrastructure projects funded by borrowed dollars and presented as a series of

stimulus packages. These may be noble efforts and will be needed at the state level, as those poor souls can't print money like Uncle Sam can. Unfortunately, the result of the stimulus packages will be to put continued pressure on the falling US dollar.

The falling dollar will help companies with international sales, as their products will become cheaper and will ultimately help those desiring higher yields on fixed income, as interest rates will continue to rise as the dollar falls. (The Fed will have to raise interest rates, which is one of its few tools its to defend the US dollar.)

For Us

In 2010, the difference between our Growth, Moderate Growth and Balanced accounts will become greater. Over the past 18 months, each of these designs has grown conservative and reflective of one another. Because the prospects of a second dip in the economy appear to be fading, our Growth and Moderate Growth account designs will reflect larger positions in both US and international equities. Our Balanced design will remain



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conservative, and we will formalize a designation for our Capital Preservation accounts, which up until now have been referred to as Thoroughbred Special accounts. The new accounts will be known as Thoroughbred Preservation and will have as their highest priority the preservation of capital with a designated growth target of 5% a year. (For now.)

All in all, it has been a darn good year here at the firm. We probably looked a bit smarter in mid-March when our conservative stance

reflected well when compared to the Dow Jones Industrial Average’s 22% decline.

By not declining as far as many managers did in early 2009, our conservative stance, reflecting increase equity exposure by late spring, resulted in an attractive 2009 for our clients. While the market will have moments in the upcoming year that will reveal that the indexes have gotten ahead of themselves, I believe that the long-term trend will remain positive. I thank you for your

continued support and warm encouragement.

Warmest Regards,

M. Brooks Clark

** Mr. Paulson saw that the first bailout checks went to AIG Insurance, which immediately cut an \$8 billion check to Goldman Sachs, representing a payment on a policy purchased by Goldman Sachs to cover possible credit defaults. This assured that Goldman Sachs stayed in business and was able to pay pension benefits to departed employees.*

If you would like to have a copy of your 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 update your statement and forward it to

The Numbers				
	Dec. 31, 2008 Index	Dec. 31, 2009 Year-To-Date	4th Quarter Change %	YTD % Change
Dow Jones Industrial	8,776	10,428	7.3	18.8
S&P 500	903	1,115	5.5	23.5
NASDAQ	1577	2,269	6.9	43.8
Russell Value	487	566	3.6	16.2
Russell Growth	371	500	7.5	34.7
Treasury Index	119	89.89	(8.2)	(24.4)
Real Estate Index	37	45.92	7.6	11.9

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