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## UGLY JANUARY

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Ugh! January was a brutal month. In fact, it was the worst January for NASDAQ in its 37 year history. Save for a last minute rally on the final day of the month, it would have been the worst January for the S&P 500 as well. The Dow ended down 4.6%, the S&P 500 down 7.8%, and NASDAQ was down a whopping 9.9%. That's just for one month! We were down as well, but not as badly.

Last month I said that I thought that 2008 would be a bumpy, but good year. I still think that's true, but January offered a pretty good demonstration of the bumpy part. The good news is that my indicators have turned positive following this decline. How and when they turned up is even better. There are several gauges used to measure the level of fear and greed at work in the markets. When fear becomes overwhelming, investors begin to panic and sell anything and everything. It was at these panic levels that my indicators turned up. That's very good news, because these bottoms tend to be important, long term bottoms. That bodes well for the remainder of the year.

I continue to believe that we are seeing a major shift in leadership in the markets.

Let's go back to the late 1990's. Y2K was the topic of conversation everywhere you went. It sounds funny now, but at the time people were afraid that when the year turned to 2000, the computers would all stop working. This was then supposed to cause all the electric grids to shut down, planes to fall out of the sky, and a reign of chaos to begin. No computers meant no power, transportation, communication, food, heat, or drinking water. All of the records would be lost, and we would descend into the dark ages.

In order to avoid that, every person and every business took whatever steps they possibly could to avoid this disaster. They upgraded their software, bought extra hardware, hired programmers to check their systems, and sent frequent notices to their clients advising them of their Y2K readiness. For several years leading up to 2000, they spent every penny they could find on their computers and the internet. Our very survival was at stake.

Stop and think about that for a minute. For a period of several years, no expense was too great to protect the integrity of the internet and computer systems. All available resources were committed to this effort. Do you think that might have translated into some extra, beyond the normal, business for the companies being hired to do this work? Of course it did. They made unprecedented amounts of money in those years.

After this frenzy of spending, 2000 came and... nothing happened. Nothing at all. No damage to repair, no chaos, no end of the world as we know it.

Having allocated all available resources to this potential disaster for years, everyone then closed their wallets for any further tech spending and concentrated on all of their other needs. It was like turning off a light switch. NO ONE placed any orders for computer technology or systems. The market sent a message: "Exit the techs, and buy value".

The tech stocks crashed, the market fell for three years, and many companies disappeared. However, those investors who opted to exit the techs and enter value stocks did pretty well during those years.

That's what I call a shift in the market. It wasn't ever about the market as a whole. It was about moving out of the techs for a few years. Those who saw this and shifted their funds did fine. They may have suffered some early on, but as they shifted into the new leadership, they quickly returned to profitability.

Today we have a shift of possibly equal magnitude.

For years, real estate has been rising in value in certain areas of the country. Resort and coastal areas, the larger cities, and even large areas of some states were experiencing especially rapid growth in prices. People were no longer buying homes to live in. They were buying second, third and fourth homes or buying property as speculation. More buyers meant more increases in the price as each new home was sold. Builders were building as fast as they could and still the demand escalated. One bank after another lowered their lending standards to enable ever less credit worthy buyers their opportunity to get rich in real estate, too. Compounding all of this activity was the hedging and repackaging of these mortgages into new securities being sold to private investors and to other banks.

But one day we finally found the highest bidder. Suddenly, there was no one willing to pay yet another higher price. That meant the next house sold lower and slower. Then it just seemed to stop. The buyers disappeared. Prices are down; there is a huge inventory of unsold new homes, and foreclosures in abundance. You know about the sub-prime losses, but still to come are the losses from the CDO's (credit default swaps) and SIV's (structured investment vehicles). The losses from *each* of those could equal the losses from the sub-prime mortgages.

The message of the markets is clear: **Exit exposure to this area and move to growth.** These are the very early stages of this shift. There will be some enticing rallies along the way, and those rallies will lure many back into these stocks, but it is going to take years to absorb all of the damage. There will also be some amount of volatility in the overall markets as this shift occurs, but it will be felt the longest and the strongest in those areas directly involved.

We are listening to the market and moving on. You will notice large cash positions in your accounts as this selling has been taking place. I am waiting patiently for the market to identify the new leadership, buying as they become known, and continuing to sell the weaker holdings. That is how we will make money.

Some of the new leadership is already emerging. Most of it has to do with a focus on technology that is used to give companies a competitive edge.

And it isn't just the technology involved in computers. It's the technology in medicine, mining, refining, processing, producing, recording, and analyzing. Eight years is a long time in technology, and a lot of companies have a lot of catching up to do.

This difference in the use of technology will allow some companies to grow at much faster rates than others. Those differences in rates will only be more evident as time passes and the gap widens between those with the new technologies and those without. Wal-Mart became the number one retailer in the world because of their superior technology. I believe technology is about to create several more companies as the best in their business, and those are the companies we want to own.

Cindi Showalter