Braver Wealth Management, LLC

July 15, 2009

Second Quarter 2009 Update - The Panic Subsides and Normalcy Returns

Proving once again that financial markets today move more swiftly than ever, the second quarter of 2009 witnessed a rapid recovery in investor sentiment, credit market stabilization, and riskier asset price recovery. Just three months earlier, the entire world was thrown on its head and mass confusion engulfed Wall Street and Main Street. Compounding the financial troubles, the United States, for the first time in generations, witnessed political instability and confusion that further exacerbated the financial woes.

Sentiment began to change at the end of the first quarter when Treasury Secretary Tim Geithner articulated a well-received plan to salvage our financial system. At the same time, as we had written about in the past, the massive stimulus being injected into the global financial system began to free the credit markets and foster the early signs of lending. The improvement in the political landscape and policies combined with the global fiscal stimulus effort dramatically reduced the rampant panic evidenced earlier in the year. This reduction in fear allowed bargain hunters hoping for a recovery to snatch riskier assets at very cheap levels.

First and Foremost, A Credit Market Update

As a long time equity investor, I have been told numerous times throughout my career, by my fixed income contemporaries, that the fixed income markets are smarter than the equity markets and provide a better leading indicator of the economic environment. At no time in my recollection was this more evident than over the past year and certainly in the second quarter. As a sign of improved lending and credit market stability, the much watched TED spread has moved all the way back down to a historically normal level from the spike last October 8th at a level almost 15 times greater than the norm! Based on this one important credit measurement, the global credit markets have normalized and lending is once again flowing. Panic has subsided and credit activity has resumed around the globe. The bond market is signaling stabilization and perhaps a future recovery.

Given this renewed confidence, riskier corporate bonds had a very strong second quarter compared to their risk-free U.S. Treasury Bond counterparts. Intermediate corporate bonds finished the quarter up 9.4% as measured by the Barclays U.S. 5-10 Year Credit Index while Intermediate U.S. Treasury bonds lost -4.7% as measured by the Barclays U.S. 5-10 Year Treasury Index. Investors rotated out of the safe haven of Treasury bonds for the opportunities present in riskier corporate America. Our High Yield Bond program continues to perform exceptionally well and took advantage of this trend into riskier assets and earned nearly 19% for the quarter! In addition, our Asset Allocation portfolios also benefitted from this movement out of treasuries as we had proactively sold Treasury Bonds in favor of corporate bonds early in the first quarter of 2009.

The Equity Markets Follow Suit

The global equity markets took their queue from the credit and fixed income markets in the second quarter as witnessed by the reduced volatility index and a very strong snapback recovery with the riskiest equities leading the charge. The Volatility Index (VIX) is a measure of panic in the equity markets. Similar to the TED spread above, it spiked last November to an unprecedented level four times the historic norm. In the second quarter, this panic gauge drifted all the way back to normal levels. This stabilization and resumption of confidence allowed the Standard & Poor's 500 Index to finish the second quarter up 15.9%. This does not tell the entire picture, however, as lower quality equity positions rebounded even more strongly as evidenced by the S&P Small Cap 600 Index gaining 21.1% in the quarter.

Braver Asset Allocation and Sector Rotation Benefit from the Rebound

Our Asset Allocation portfolios that remain fully invested along with our more growth oriented Sector Rotation program were up strongly in the second quarter as they capitalized on the snapback recovery. As an example, our typical Asset Allocation Moderate portfolio advanced 12.5% and the Sector Rotation program had a similar gain of 12.2%.

It is important to note that during times of rapid market recovery, our conservatively structured Wealth Preservation strategies are likely to lag the markets as the cash components require time and conviction before reinvesting. The trade-

off, is that in times of market declines, these cash components will preserve capital better as witnessed last year. After very strong outperformance in 2008 and the first quarter of 2009, three of our Wealth Preservation Strategies, Diversified, Tactical Allocation, and Strategic Portfolio, witnessed muted, but still positive returns in the second quarter of 4.80%, 2.88%, and 5.62% respectively. This is not unexpected and is consistent with our investment philosophy for these strategies. For the full year, our Wealth Preservation strategies are very competitive to the benchmarks as we did not experience the major declines in the first quarter thereby achieving a smoother return.

The Outlook

Many investors are now wondering if the recent capital markets' recovery is for real or just another head fake. We do not have the answer to this question, but now that the panic has subsided, the answer rests more clearly with fundamentals: economic conditions and subsequent corporate profits. Our feeling on the overall economy is one of gradual improvement with no major catalyst to drive growth. We do have longer term concerns stemming from the political, fiscal, and monetary policies that have been required to stabilize the economy.

Economic conditions in the United States have stabilized at deep recession levels, and clear signs of improvement are on the horizon (the so-called "green shoots"). The financial system, although still saddled with residential real estate inventories, bad loans and a looming commercial real estate correction, is dramatically improved from the recent past. This improvement has led to more normalized credit markets and lending as described above. In turn, consumers and businesses are getting a grip on their balance sheets by cutting expenses and increasing savings rates. Unemployment in our country is likely to reach double digit levels and peak somewhere in the 10-13% range. However, the rate of new unemployment claims is slowing and beginning to stabilize.

Lacking a growth catalyst and saddled with high unemployment and weak consumer balance sheets, a robust economic recovery may not be in the cards. However, it may not be needed for capital market advancement from current levels. Many economists expect modestly positive GDP growth to resume in the third or fourth quarter as businesses begin to spend again. Even mild resumption of economic growth is a strong rate of change from the severe negative growth of -6% experienced just last quarter. Corporate earnings, the true key to equity market performance, will likely surprise investors on the upside given the lean employment and cost structures combined with renewed economic activity. This improvement in economic conditions and corporate earnings in tandem with reasonable valuations may bode well for a continued advance in equity prices over the short term as investors continue to gain confidence. Remember that a historic level of cash remains in money markets around the globe earning less than zero percent (after inflation). Financial market stabilization and improvement fosters a renewed investment climate over time, and this likely trend out of cash should not be underestimated.

Longer term, the economy and financial markets will have to come to terms with a rapidly changing political landscape, ballooning debt, and potentially rapidly rising inflation. All of these conditions lead to uncertainty and give us pause as we look out over the next three years. However, the markets have climbed a 'wall of worry' historically, and we have consistently faced challenges and persevered. It may be a slow growth recovery, but after the events of the past year, we will gladly take any improving economic environment!

Business Update

Braver Wealth Management continues to navigate the difficulties of the past year in good form. In a challenging year for the financial services community, we are glad to report that our asset base has remained stable and we are continuing to grow. We remain focused on servicing our clients and managing their wealth.

As you may know, we do not advertise and instead rely on your referrals for our growth. Our firm remains uniquely positioned with our Wealth Preservation solutions to preserve capital in difficult times. Many investors can benefit by having a portion of their portfolios in our Wealth Preservation strategies for diversification, risk control, and downside protection. If you know anyone who might benefit from our services, please let them know about us. We thank you for your business and look forward to continuing to earn your trust.

David J. D'Amico, CFA
President