

Client Website Update Announcement

If you have not been accessing your account online and would like to, please feel free to call or e-mail us.

Dear FIM Group Clients,

As part of our dedication to enhance our client services, on March 1 we switched to a new website provider. As a result of the upgrade, FIM Group clients will not be able to access their accounts online beginning Sunday, March 1.

If you typically access your account via *www.fimg.net*, you will need to receive a new user name and password. Unfortunately your previous user name and password will no longer function with our new provider's system. *(While a slight inconvenience, it ensures 100% security.)*

In order to receive a new user name and password please contact us in one of the following ways:

- **Call us toll-free 1.800.632.5528**
- **E-mail our client service website department at *webaccess@fimg.net***

We will be sure to respond to your request within one business day.

We are grateful and appreciate your patience during the transition. Rest assured that this upgrade will enhance your online experience and allow us to continue to make future improvements.

Blessings,

Paul H. Sutherland
President, FIM Group

DISCLOSURE

Performance data quoted represents past performance. Past performance does not guarantee future results. All performance assumes reinvestment of dividends and capital gains. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Performance data current to the most recent month-end may be obtained by calling 231.929.4500.

Founded in 1984, Financial & Investment Management Group provides global investment management solutions to individuals, corporations and advisers. Our dedicated and talented team of 33 professionals works from offices in Traverse City, MI, Onalaska, WI and Maui, HI. FIM Group actively manages more than \$350 million in client assets.

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As per SEC Regulations, this is to inform all interested parties that Financial & Investment Management Group, Ltd.'s FORM ADV PART II is available upon request by writing FIM Group at: 111 Cass St., Traverse City, MI 49684.

Current Observations

Business vs. Business

By Paul Sutherland, CFP®

As our society has grown in complexity over the years, we Americans have decided to delegate to our government certain roles that we used to leave up to the churches, synagogues, charities, families and good neighbors. Somewhere along our history, we quit trusting that the citizens of America would take personal responsibility. We have delegated that to our government, so today we have created vast regulation that impedes capitalism.

In the 1940s and 1950s, doctors were convinced that diethylstilbestrol, or DES, was a safe and effective solution for preventing early miscarriages and administered the drug to thousands of pregnant women. When DES was subjected to more modern scientific testing in the 1960s, however, it was determined that the drug was not only absolutely ineffective on preventing miscarriages, unfortunately, it was shown to have negative health effects on the fetus.

There was a similar experience more recently with a heart rhythm drug. After suffering a heart attack, a significant percentage of patients developed extra heartbeats that in some cases could cause sudden death. Doctors reasoned that by eliminating the extra heartbeats, they would also eliminate the possibility of sudden death. Specific drugs were developed and administered and became the standard of practice throughout the United States. There were some skeptics, however, at the National Institutes of Health (NIH) and the U.S. Food and Drug Administration (FDA) who thought the drug ought to be tested. NIH set up a trial, and what they discovered shocked everyone: the drugs eliminated the beats, but sudden death rates were substantially higher than those who did not take the drug at all. In this case, the cure was far worse than the condition itself.

Few would argue that we don't need the FDA or other safety regulation. Just look at our air travel and the FAA. I travel all over the world and have been on regular flights in developing countries where the pilot himself walked around and inspected the plane, fueled it up, performed pre-flight instructions to passengers . . . and while walking back to the cockpit, duct taped the window that was flapping wildly before we took off.



2009 Industry Trends

Big is beautiful. That is one reason that our holdings include large companies, which should benefit from the trends that we see going forward:

1. More government influence and regulation
2. Capital access
3. Government/regulators choosing winners/losers
4. Hyper-competitive industries

continued from page 1

But with our economic crisis some people want more regulation, and some want less, but what is best for our growth and recovery? And what can this mean for the future of business?

While attending an economics summit at Stanford years ago, one of the instructors taught me to look at governments, non-profits and government agencies in the same way as I would look at profit-seeking entrepreneurs and corporations – as “businesses” that want control, power, resources, influence and money.

So we Americans subsidize giant corporate farm and agricultural businesses at the cost of billions, and we subsidize the banking industry with FDIC insurance at what looks like a cost measured with a trillion-dollar handle. President Obama did not put the FDIC in place, and he did not give AIG, Morgan Stanley, Fannie and Freddie and their ilk a great deal of power and influence through tax breaks, influence and cozy government relationships. We did, collectively, over the years.

The U.S. government is all about business, right? So who wants to influence the new look of banking? The very people who got us into this mess. Of course, the competition now will be about government agencies granting benefits to certain businesses and shunning others. And naturally these benefits will favor the “big” companies that can afford to lobby, schmooze, influence officials, advertise and hire expensive PR firms. The “little” entrepreneurs – like small cash crop farmers, tiny community banks, small market insurance companies and small manufacturing companies – can’t even compete. They’re too busy trying to make payroll, figure out the impact of taxes and compete with these big guys to take time and resources to get a significant voice in government or regulation.

So right now “big is beautiful” for some industries – like telecommunications, energy, health care, banking (although this might change, but don’t hold your breath), insurance, air transportation, parcel transportation and entertainment/news, to name a few. The

little guy will exist, but for now it looks like big guys rule.

That is one reason that our holdings include large companies, which should benefit from the trends that we see going forward:

1) More government influence and regulation – which crowds out the small guy who can’t scale effectively to afford \$650 per hour lawyers and full-time people to work with the regulators and lobbyists.

2) Capital access. GM and Chrysler are big enough and employ thousands, so they get attention and front page news as, literally, thousands of smaller firms go bust that collectively have as many employees. I live in Michigan, and I’ll

constant, so, of course, we will invest where we expect the profits will be.

3) Government/regulators choosing winners and losers. Green is in and will get regulatory help as will programs that create new jobs and make regulators look good. And as we move forward with the new administration, it is obvious that health care and infrastructure will get the government’s support.

4) Many industries will be hyper-competitive. Auto, advertising, news, entertainment, travel (for now), clothing, manufacturing, etc. will all see significant competition and low margins. That’s fine – no one says you must invest there. We are not indexers, so we won’t dumb down our portfolios with investments going nowhere. Of

“... we should get optimistic and grateful – optimistic because we can identify and fix the problem and grateful because we Americans are good at fixing things.”

let you in on a secret: “Big is beautiful to Lansing.” Our legislators will give lip service to small entrepreneurs and service companies, but all you need to do is look at Michigan’s tax scheme to know it’s about big industries like Ford and GM. On the other side of this, we see good, solid, healthy companies that have access to capital by the truckloads at prices much cheaper than the small guy, so they can buy the small guy and compete very effectively, especially in capital-intensive businesses.

I think the little guy will get more respect going forward due to the fact that so many of our institutions failed us and as a backlash to multi-million dollar salaries and bonuses. I do think capital will get more “localized,” not just geographically, but culturally, and that angel investors, family and small businesses will work together to keep each other strong. This might barbell our economy into very small and very large enterprises, with few in the middle range. As an investor, change happens and is

course, this will mostly likely change. Extreme competition tends to eventually kill off the weaker companies, allowing those left to raise prices and prosper.

Regulations will ebb and flow, too. When I started my career, airline fares were regulated, telecommunications was regulated to death and utilities were so strangled that investors stayed away. Today, there’s regulation “light” compared to the 1970s. Banking and finance, due to our big FDIC subsidy, could only be thrown into complete deregulation if we threw out FDIC insurance. So for now, we will have, and continue to get, more regulation.

It is easy to get melancholy about this business climate and our societal, business, and government’s responses. It has been this way forever. Governments, businesses and citizens are complacent while everything appears to be working. And when it doesn’t seem to be working – as we see today – we get rattled and

continued from page 4

The most common variable annuity guarantees are death benefit and minimum income. The difference

between your account value and the guarantee value (also referred to as the “benefit base”) would be the amount potentially protected by the state insurance guaranty association.

It is difficult to determine what value, if any, would be placed on this difference. For example, if a variable annuity has a current value of \$50,000 but a guaranteed death benefit of \$150,000, the actual present value of this difference of \$100,000 would be entirely different for a 75-year-old person versus a 50-year-old person.

While insurance company failures are rare, they are certainly more likely now given the current uncertainty in the financial markets.

Annuities Among States

Another client concern regarding annuities relates to what happens if a policy owner has moved to a different state after purchasing an annuity. For example, if an annuity investment was originally made with a Wisconsin resident, but then he/she moves to Florida, which state guaranty association is responsible for providing protection? The answer, quite simply, is that the guaranty association in the state of residence at the time an insurance company fails would provide coverage. However, it is important to note that in order to have any protection the failed company must be authorized to conduct business in your state of residency at the date of failure.

Assume, for example, that you had purchased an annuity from ABC Insurance Company in 2007 while a Michigan resident. You retire and move to Hawaii in 2008, and in 2009 ABC Insurance Company fails. Your level of

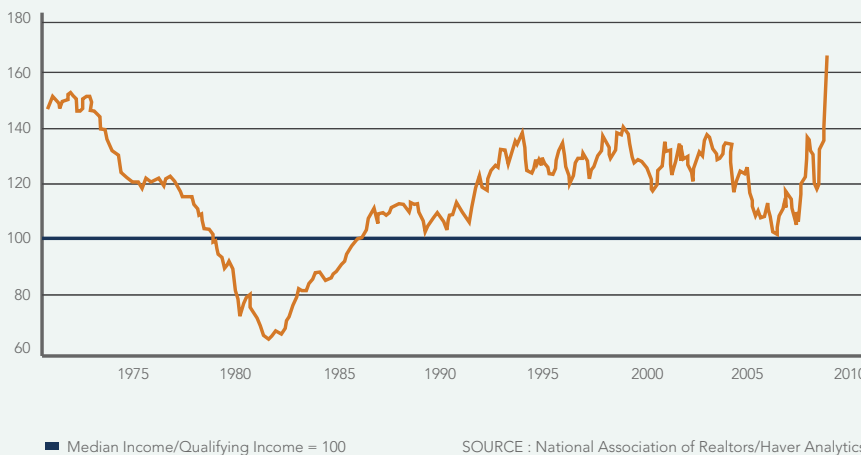
protection will be determined by limits established by the Hawaii Life & Disability Insurance Guaranty Association only if ABC Insurance Company was authorized to conduct business within Hawaii. If you own an annuity, you should be aware of the strength of the insurance company. Reviewing their ratings periodically is recommended. If you are uncertain of an insurance company’s strength, or have any questions or concerns regarding your annuity policy, contact your FIM Group representative at any time, and they’ll be glad to assist you.



Housing Affordability Hits a Record High

By Zach Liggett, CPA®

Composite Housing Affordability Index



When the index measures 100, a family earning the median income has exactly the amount needed to purchase a median-price resale home using conventional financing. An increase in the affordability index means that a family is more likely to be able to afford the median priced house.

The National Association of Realtors publishes a monthly housing affordability index based on the median price of a home, median household income and mortgage rates. The record surge in the index has been driven by a combination of record low mortgage rates, plunging home prices and relatively stable household income. Home prices may stay under pressure until the 9.7 months supply of existing homes inventory gets back to the “normal” level of 4 to 5 months, and mortgage rates should stay low with the Federal Reserve’s recent announcement that it will buy \$750 billion in agency mortgage-backed securities. Household income, which may face some pressure as unemployment ticks higher, remains the wildcard factor. All in all, the level of housing affordability should stay elevated for awhile, attracting more buyers into the market. This demand will eventually absorb excess home supply and bring stability to a still shaky residential real estate market.

continued from page 2

fearful. However, we should get optimistic and grateful – optimistic because we can identify and fix the problem and grateful because we Americans are good at fixing things.

The stock market will rise again. Unemployment will naturally right itself and employers will once again have to give bonuses to get top candidates. Once again the corner cafés and coffee houses will have fewer unshaved men in jeans slumped over and reading the wants ads and more people dressed for work. And once again the tension will be about deregulation and not regulation.



Crosscurrents: What is an investor to think?

By Barry Hyman

Bank rescue plans, economic stimulus plans, market-to-market accounting relief . . . will they work, and if so, when? Some talking heads, pundits, “experts” and politicians are all talking of a market bottom, economic recovery and expected bull market. Others, and it certainly feels like the vast majority, fear a worsening economy, continued bear market and ensuing doomsday scenarios. Which is it? What’s an investor to think?

The facts are that the economic cup is half full *and* half empty. But this is no different from any other time. The market climate always seems to be in either a state of climbing the proverbial “wall of worry,” or the ominous state of complacency where ignorance is bliss. We repeatedly write about the conflicting forces of past cycles. We have been through similar ones before, though every cycle feels like “it’s different this time.” Actually, every time is indeed different from another in the specifics of each. But the overall conflicting views between optimism and concern, opportunities and fear, greed and caution are always present. At this point in the cycle, the overriding question is whether the worst-case scenarios are already priced in or not.

Currently, there are strong opinions on both sides of the fence. The media is mostly fear mongering, as are the politicians on both sides of the aisle. The so-called “financial media,” which consist

mostly of journalists or marketers, are adding fuel to the fire. Economists seem to be more evenly split.

One camp says with the Federal Reserve’s balance sheet exploding upward, what economists call the velocity of money accelerating at historic rates, the economy awash in stimulus money, bank accounting regulation being relaxed, combined with historic drops in stocks and sentiment, all the ingredients are in place for a significant stock market rally. They also cite the facts – including consumer spending accelerating in January and February, new home sales increasing 4.7%, existing home sales increasing 5.1%, housing starts increased 22.2%, inflation-adjusted average hourly earnings up 4.1% and new orders for durable goods up 3.4% in February – all of which greatly exceeded consensus estimates. This camp feels the economic crisis peaked in the fourth quarter of 2008 and the economy is clearly strengthening. They feel consumers and investors simply overreacted to all the hype, sowing the seeds for a new bull market and economic expansion.

As for the other camp . . . well, all you have to do is listen to the news, watch the financial shows, pay attention to the politicians, read the headlines or open your e-mail, and you know the doomsday scenarios. Much of what this group cites is accurate and what they predict is plausible. There are indeed a lot of risks lurking.

“Be fearful when others are greedy and greedy when others are fearful.’ But only do so with a patient, appropriate time horizon.”

But there is another group that should carry more weight than any of the aforementioned – the fraternity of professional investors with long track records of success. Warren Buffett, as readers of our newsletters know, says he has no idea where the market is going in the near term, but when investments are bargain-priced, prudence says to buy them. Bill Gross, who manages more bond assets than anyone else on the planet, who called for the Dow to fall to 5,000 several years ago when it was over 12,000, says he believes in stocks for the long run, “but only if purchased at the right price.” Jeremy Grantham, a stalwart investor who has been bearish on stocks for many years, just turned optimistic on global stocks in March and advised to “reinvest when terrified.” Steve Leuthold, another manager with a long successful track record going back to 1970, has long preached to be wary of equities he



continued from page 3

runs a mutual fund that only sells stocks short, also said in early March to get out of short positions and invest in global stocks because they're so undervalued.

This "price matters" concept guides FIM Group to achieve favorable returns over complete market cycles for those patient investors. From the valuations where many securities are currently priced, the upside is substantial. Prevailing pessimistic views of the state of the

economy and the markets are the bane of the emotional public, but a blessing to purist, patient investors for one basic reason: while the economic cup may still be half full (and possibly still draining), the investment cup is much closer to empty and usually begins refilling before the economic cup does. As Mr. Buffett advised, "Be fearful when others are greedy and greedy when others are fearful." But only do so with a patient, appropriate time horizon.

About Annuities

By Kevin Mahoney, CPA®

The current financial market turmoil has caused many of our clients to become concerned about their annuity contracts. Specifically, they want to know if the insurance company that issued their annuity is at risk of filing bankruptcy, and if so, what options are available to them.

This article will address this and other client concerns in order to help them make more informed decisions.

Protection in the Event of Bankruptcy

Each state has a commissioner of insurance who regulates the insurance companies doing business within the state. Each state also has an "insurance guaranty association" that provides partial protection to consumers in the event an insurance company fails.

In Michigan, for example, the Michigan Life & Health Insurance Guaranty Association currently limits the guarantee amount of an annuity policy to, "... \$250,000 in the **present value** of individual qualified retirement annuities (issued under section 403(b), 408 or 408A of the Internal Revenue Code), and \$100,000 in the present value of all other annuities."

Note that the term "present value" is used. If an annuity owner has "annuitized" the policy, a calculation would be made to determine the present value of the future payments.

In some cases, the difference between owning an annuity that has been annuitized and one that has not is significant. In Minnesota, for example, an annuity that has not been annuitized would have a maximum protection amount of \$130,000 (defined as the policy's net cash surrender value) whereas a contract that has been annuitized with a period certain benefit of at least ten years to life would be \$410,000.

Any amount in excess of the guaranteed amounts would be subject to bankruptcy proceedings, and any repayment would depend on the remaining assets the company holds and the priority of payment determined by the bankruptcy court.

A variable annuity is somewhat different than a fixed annuity due to the nature of the policy. A variable annuity is basically a mutual fund investment within an annuity policy. This investment is known as a "subaccount." Subaccounts (other than a guaranteed interest

How Strong Is Your Insurance Provider?

As always, it is important for a policy holder to know the strength of his/her insurance company. A number of independent rating services – such as Moody's, Fitch and A.M. Best – provide ongoing ratings for companies.

Insurance companies are assigned a composite index rating – or COMDEX score – that is the average percentile of a composite of all of the ratings that a company has received. The COMDEX gives the company's standing, on a scale of 1 to 100, in relation to other companies that have been rated by the services. A company with a COMDEX score of 90, for example, would be rated higher than 90% of all companies in the rating. Bear in mind that the COMDEX score is a relative rating and not an absolute rating.

account) are not loans to the insurance company; therefore, the value of these accounts is not at risk in the event of bankruptcy. Bear in mind, however, that these investments do have market risk. If a variable annuity had a value of, for example, \$250,000 (none of which is in a guaranteed interest account), the subaccount value would be intact (subject to continued market risk) in the event the insurance company were to fail.

What becomes a little less certain is how the "guarantees" made by the insurance company would be dealt with in a bankruptcy proceeding.