

**“Zero Interest Rate Policy offers Zip”**

At its most recent meeting on December 16, 2008, the Federal Reserve moved its target for fed funds to 0% - .25% or essentially, a Zero Interest Rate Policy, “ZIRP”. This historic action is one in a series of policy moves taken by the Federal Reserve and the Treasury in an effort to provide a stimulus for the U.S. economy. The reduction of interest rates by central banks around the world in coordination with the U.S. initiatives continues to be instrumental in helping to avoid a deep global recession.

Lower interest rates coupled with the decline in the price of many commodities, most significantly oil, have provided reduced expenses for the consumer as well as business. Additionally, the subsequent decline in mortgage rates has provided support to a weak housing market. The large fiscal stimulus package that is expected to be enacted in 2009 will create jobs and programs to rebuild the nation’s infrastructure and also help the economic recovery. Offsetting these positive influences is the continued rise in unemployment, corporate bankruptcies and foreclosures. The deleveraging of both business (primarily banks) and households after many years of sustaining higher debt levels will also continue to be a drag on economic growth. On balance, we would expect the U.S. economy to stabilize as a result of the unprecedented government actions that have been taken thus far and those that are expected to be initiated next year. We believe a U.S. economic recovery is in the pipeline. However, we recognize that as a result of the sizable financial leverage that was created, it will take longer to develop than it has in prior economic declines.

The financial markets have begun to respond positively in both the fixed income and equity markets. As the yields on Treasury bonds fall, investors are now taking advantage of the attractive relative values available in investment grade corporate bonds. This may be an indication of the increased confidence in the credit quality of investment grade corporate bonds and a precursor to a loosening of the credit markets, which in turn will aid the economic recovery. Today, the yield on 10 year investment grade corporate bonds is on average 4-5 percentage points greater than the yield on the comparable Treasury bond. We would expect this spread to continue to narrow pushing bond prices higher, as the economic recovery becomes more advanced and investor confidence is restored.

The investment grade municipal bond market mirrors that of the investment grade corporate bond market. Investment grade municipal bonds are now offering yields at rates higher than the comparable Treasury bond of similar maturity. Traditionally municipal bond yields would be lower than the Treasury bond yield under more normal economic conditions. As with corporate bonds, we would expect the spread to narrow, offering today’s purchasers an attractive total return, as confidence is restored and bond prices move higher.

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In client fixed income portfolios we have been actively engaged in taking advantage of these attractive opportunities and investing in those bonds that are being mis-priced as a result of the credit crisis. We would expect that the improvement in credit liquidity to be a leading indicator for the stock market to also improve.

The volatility in the stock market continued in the fourth quarter as liquidations of stock positions from hedge fund redemptions and global deleveraging caused accentuated declines in stock prices. Additionally, the outlook for corporate earnings weakened as companies were impacted by the significant slowdown in demand across most economic sectors and industries. It is clear that this U.S. and global recession has been universal and pervasive.

“Experience is a hard teacher because she gives the test first, the lesson afterwards.” *Vernon Sanders Law.* Investors have experienced a tumultuous year which has tested many and taught numerous lessons. The AHB Investment Policy Committee’s past experience provided it with a knowledge and ability to buffer client portfolios from the more steep declines experienced by most other investment managers. We believe the experience we gained during this historic investment period will be invaluable in helping us to further improve upon your investment experience as we go forward. Our investment approach remains focused on the importance of appropriate asset allocation of stocks and bonds to meet the individual investment objectives of each client. Diversification of stocks and bonds in portfolios as well as the transparency of a disciplined investment process provides clients with the comfort and confidence they seek in choosing AHB as their investment manager.

As always, please feel free to contact us to discuss our economic and investment outlook or your portfolio(s).

Wishing you and your family a Happy and Healthy New Year.

## Investment Policy Committee

### Abner, Herrman & Brock Asset Management

Founded in 1981, Abner, Herrman & Brock Asset Management manages portfolios individually structured to assist each client in achieving their investment objectives. Stock portfolios are managed utilizing a Core Equity philosophy, investing in both large capitalization value and growth disciplines with an objective of long-term, after-tax appreciation and below market volatility. Portfolios are diversified across economic sectors, industries and companies. Bond portfolios are managed to provide a high rate of current income and total return. Portfolios are invested in staggered maturities of U.S. Treasury, government agency and investment-grade corporate bonds and where appropriate, investment-grade municipal bonds. Portfolio managers are available to meet with clients upon request. Please visit our website at [www.ahbi.com](http://www.ahbi.com) for a more detailed description of our investment **Philosophy, Process and People.**