First Trust

Quarterly Market Overview

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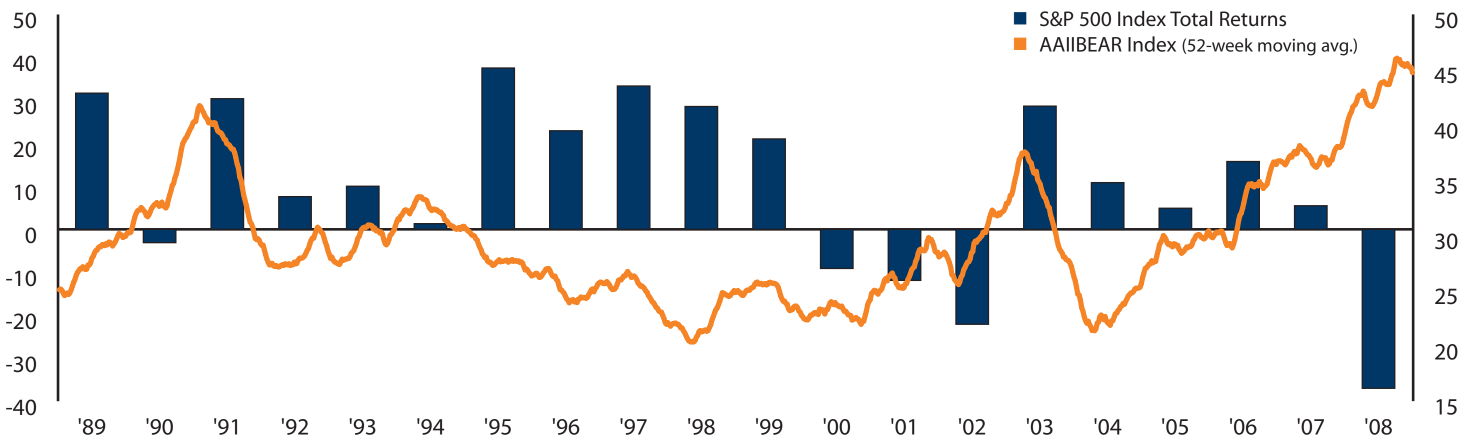
Mr. Carey has appeared throughout the United States and Canada as a guest on television and radio programs. These programs include: Bloomberg TV, CNBC and Canada's Business News Network and on Chicago's WBBM Newsradio 780's Noon Business Hour. He has been quoted by several publications, including *The Wall Street Journal, The Wall Street Reporter, Bloomberg News Service, and Registered Rep.*

Our sentiments exactly



Source: Bloomberg

This ain't no Rorschach test...this is real money!

"A personality and intelligence test in which a subject interprets inkblot designs in terms that reveal intellectual and emotional factors." (Merriam Webster)

The sentiment surveys conducted by the American Association of Individual Investors (AAII) reflect the sentiment of individual investors towards the stock market looking out six months. The AAII measures the degree of bullishness and bearishness among those polled. Considering today's challenging economic climate, we chose to feature the AAIIBEAR Index. Unlike the Rorschach test, the chart above requires little interpretation. Post 1991 (Gulf War #1), the takeaway from the chart is that when bearishness is diminishing equities perform rather well and when bearishness is spiking equities perform modestly or poorly (2008).

Since we strongly embrace the philosophy of buy & hold investing, we feel compelled from time to time to support it when the opportunity presents itself. For example, in the December 15, 2008, issue of *BusinessWeek* a chart was featured showing the most bearish weeks (13) from the AAII sentiment survey dating back to 1987. This data was accompanied by performance returns of the S&P 500 for the four-week period following the peaks in bearish sentiment. Its conclusion was that the AAII sentiment survey was not that effective of a market predictor. Since when is four weeks a proper measuring stick for stock returns? There are magazines that tell you when you subscribe you may not get your first issue for 6 weeks.

Buy & Hold vs. Trading

One of the biggest complaints we've heard about Corporate America dating as far back as the late 1980s is that it is too focused on producing quarterly results. Just look at the damage that has been done to the financial sector in the pursuit of a quick buck (think fees from subprime mortgages, securitization and credit default swaps). It is probably a good bet that Wall Street has played a role in management embracing this doctrine. Why do we say this? You need look no further than the constant stream of proclamations from the cable business shows (featuring a disproportionate number of traders) saying that "buy-and-hold investing is dead!" If you think you can own stocks for an extended period of time like the old days then you had better be prepared to be shortchanged, according to the pundits. Forget the fact that this mindset flies in the face of numerous Dalbar studies showing how poorly equity fund investors do while chasing returns. Furthermore, if trading is the only way to go then how does one explain the bloodletting going on in the hedge fund community these days? These money managers can buy, sell and short almost any security they desire (minus the brief period where financials were off limits) with little to no oversight. If we take anything away from this latest round of scandals and miscues let us hope it is that there are very few absolutes when it comes to investing. History makes for a pretty good guide so don't discard the buy & hold approach just yet. Maybe it's more about how capital gets allocated (see equity/fixed-income comparison on back).

Continued

Some humorless one-liners to help you fine tune your perspective

- ❑ The bull market in bonds that began in late 1981 featuring 30-year T-Bonds yielding 15% has yet to die.
- ❑ U.S. Long Treasuries posted an avg. annual total return of 5.69% from 1926-2008 (Ibbotson) but yielded just 2.68% on 12/31.
- ❑ The spread on BBB corporates (Merrill Index) and the 10-yr. T-Bond stood at 767 basis points on 12/31 (avg. is 188 bps. since 1962).
- ❑ U.S. stocks fell by $6.9 trillion in 2008 yet Americans were holding $8.85 trillion in cash & equivalents at year-end (Bloomberg).
- ❑ Net assets in Money Market Funds (ICI) surged from $3.1 trillion in 2007 to $3.8 trillion in 2008 (yielded just 86 bps. on avg. on 12/31).
- ❑ The dividend-paying stocks in the S&P 500 (equal weight) outperformed the non-payers in 8 of 9 calendar years this decade. (S&P)
- ❑ The dividend yield on the S&P 500 eclipsed that of the 10-yr. T-Bond for the first time since 1958 in December 2008. (MarketWatch)
- ❑ The DJIA just posted its 3rd worst year (-31.9%) since 1896 – 1907 & 1931 were worse and both endured a banking crisis. (SeekingAlpha)
- ❑ The P-E on the DJIA is about 10.5 (trailing 12-mo. earnings) – lowest since 1930s (Depression) and the early 1980s (hyperinflation).
- ❑ The 42.9% decline in the S&P 500 from 10/9/07-12/31/08 is right in line with the bear market from 3/24/00-10/9/02. (Bloomberg)
- ❑ Correlation between S&P 500 & MSCI EAFE increased from 0.47 (1980s) to 0.83 (2000-2007) thereby reducing diversification benefits. (*Worth*)
- ❑ Volume in Equity Options at the CBOE totaled a record 604 million contracts in '08 – a 21% increase over last year's record tally. (CBOE)
- ❑ Home foreclosures set a record-high in 2008 surpassing 3 million – up 81% from 2007 and 225% higher than in 2006. (RealtyTrac)

Buy & Hold has worked just fine in the debt markets (2000-2008)

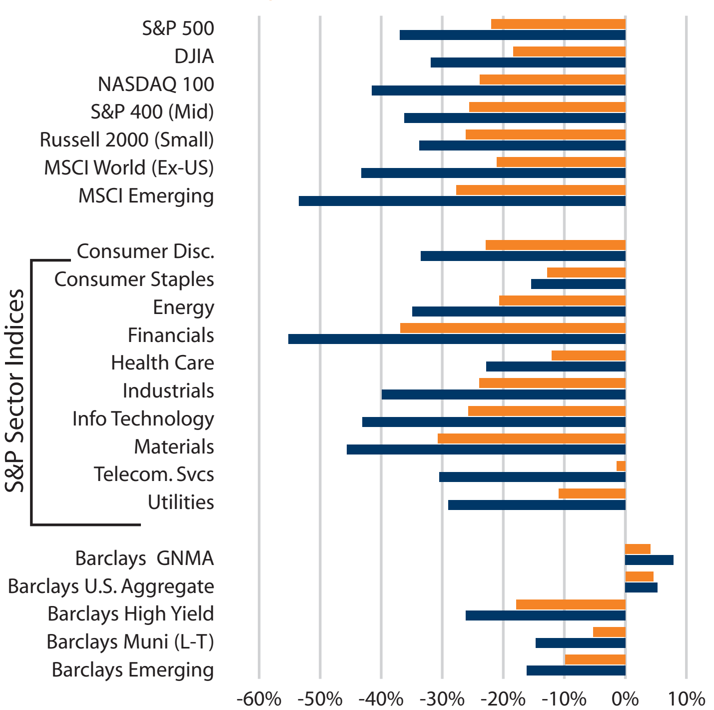
Index	Cumulative Return	Annualized Return
Global Aggregate	75.43%	6.45%
GNMA 30 Year	74.92%	6.41%
U.S. Treasury: Intermediate	72.96%	6.28%
Intermediate Corporate	56.19%	5.08%
Municipal Bond: Long Bond (22+)	49.03%	4.53%
U.S. Corporate High Yield	21.06%	2.15%

Source: Barclays Capital

Index	Cumulative Return	Annualized Return
S&P 400 Index	34.79%	3.37%
Russell 2000 Index	11.55%	1.22%
DJIA	-7.17%	-0.82%
MSCI World (Ex U.S.) Index	-27.23%	-3.47%
S&P 500 Index	-28.13%	-3.60%
NASDAQ 100 Index	-66.47%	-11.42%

Source: Bloomberg

Total returns for *Q4* and 2008 (12/31/08)



A Look Ahead:

The outlook for earnings (year-over-year)...

	Q1'09E	Q2'09E	2009E
Financials	128.1%	289.6%	57.5%
Technology	**-15.4%**	**-12.7%**	**-7.3%**
Health Care	1.8%	5.2%	6.8%
Consumer Staples	**3.7%**	**5.2%**	**8.4%**
Consumer Discretionary	-34.3%	45.6%	26.1%
Industrials	**-19.8%**	**-18.1%**	**-10.2%**
Telecommunications Services	-8.1%	-9.3%	-1.0%
Energy	**-35.6%**	**-43.9%**	**-31.1%**
Utilities	-0.5%	1.7%	4.8%
Materials	**-48.4%**	**-40.9%**	**-28.2%**
S&P 500 Index	**-13.1%**	**-11.2%**	**-8.8%**
S&P 400 Index (Mid-Cap)	-11.4%	-11.6%	-3.9%
S&P 600 Index (Small-Cap)	**-10.7%**	**-6.7%**	**-1.1%**

Source: Thomson First Call/Baseline (1/9/09)