

April 2, 2008



Clients,

What a tumultuous quarter! In my last letter I whined about four expert investors moving out of equities. In hindsight, I should have moved everybody out of equities. Of course, the danger is moving out just when things turn around. My approach is to draw a trendline such you see on the first chart of the performance overview for all that Wenzel Analytics manages. Above that line, the market is breathing in and out. Below that line in the sand, it is time to start moving out and into more defensive positions. I'm sorry to say that the line was crossed last Thursday and I sold the rest of the mid-cap MVV being used as a timing/passive vehicle for many of you. Most of the money was put into an ETF of Swiss francs, which I consider a better defensive position than holding cash in dollars. Well as you know, the market bounced back on April 1. Fortunately, only a minor allocation is risked on the timing endeavors. This is a not a business for those who need to always be right.

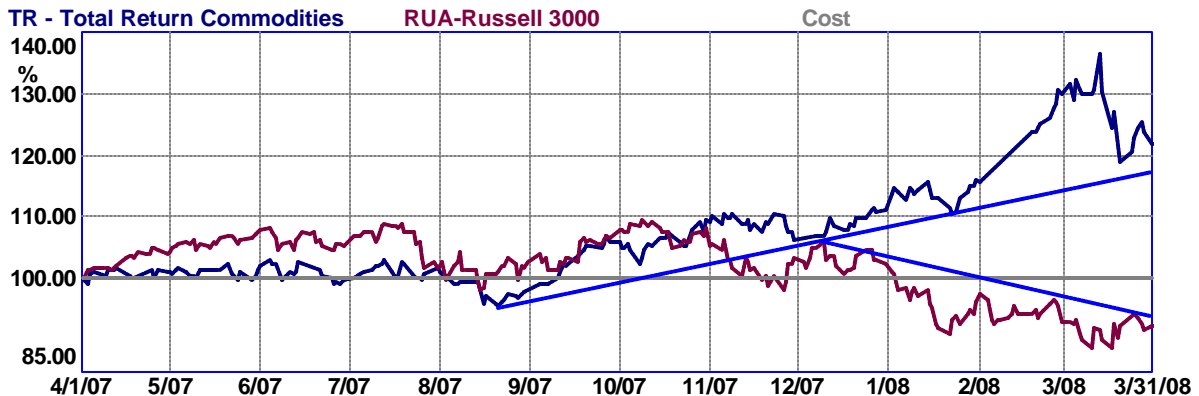
My approach is to continually balance risk by diversifying. Also, in times like this when a whole portfolio (Sector Rotation) jumped more than 11% just on April 1 alone, it is a time to pay attention to the big things and not be distracted by the details. With that in mind, I will be consolidating some of the details on your individual reports. If it doesn't help either of us make a decision, it probably doesn't need to be there.

Since my last letter, I have several new clients and prospects, some with small accounts and some with larger accounts than I have had in the past. Both add significantly to the number of portfolios to manage, and consequently to the complexity of continually balancing the allocation for each of you. Fortunately the move to consolidate at Scottrade, as well as improvements in my portfolio management software, have helped considerably in keeping things manageable.

As for the big picture, I have enclosed a good summary editorial by the editor of *Kiplinger's Personal Finance* from the May issue. I have selected the reprint, not because it is particularly provocative or authoritative, but because I happen to agree. There was a time when allocation meant balancing domestic stocks and bonds. Now any approach to allocation must include balancing currencies, international corporations, other stock markets and commodities. I have included more of this kind of analysis in your individual reports. If you are investing heavily in alternative currencies, international firms and commodities outside of what I manage for you and expect me to be a domestic equities manager, please contact me to make sure we have an appropriate overall allocation for you.

I will show some charts to give a picture to this larger arena.

### Last Year. Commodities and Domestic Equities



*An alternative to mutual funds.*

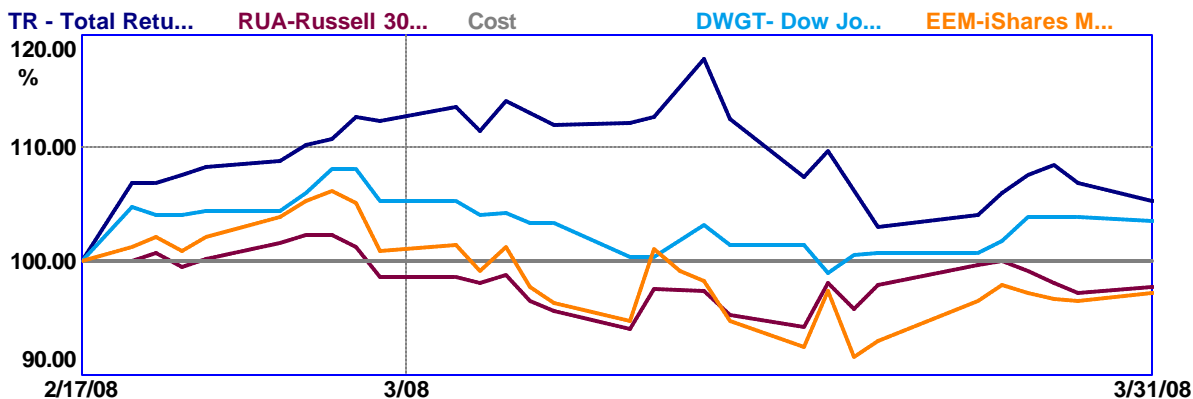
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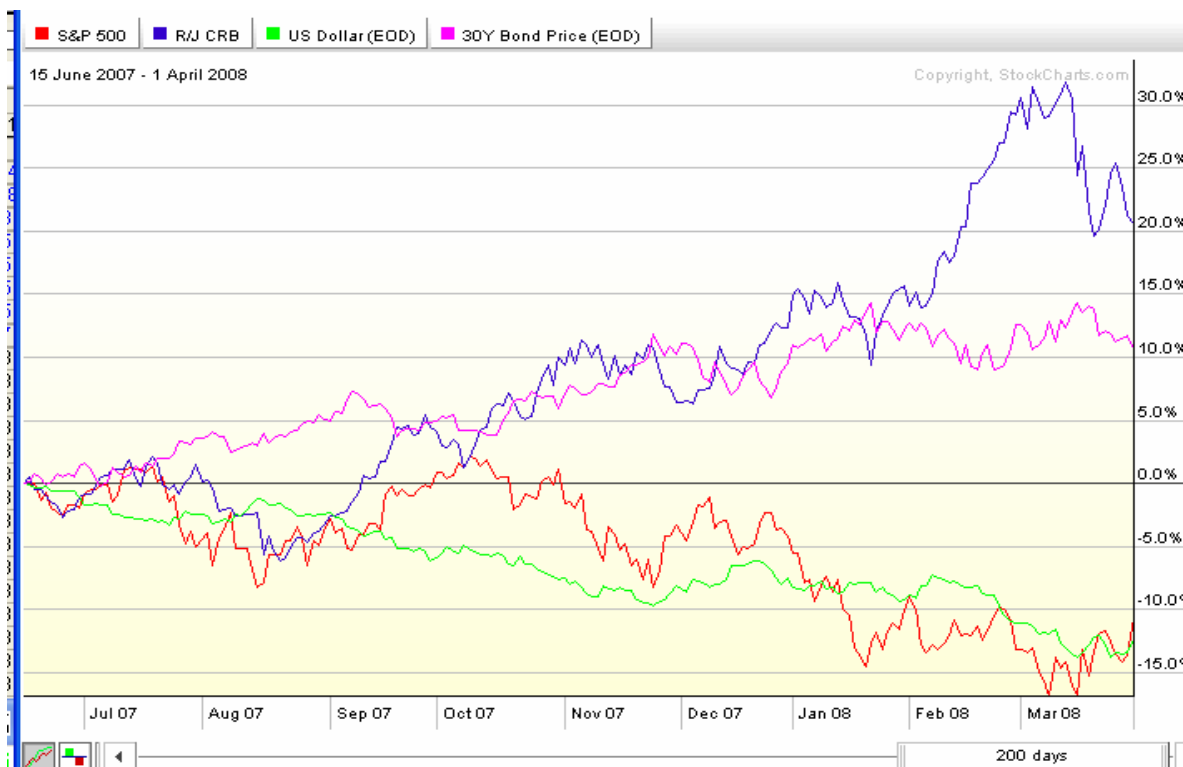
As you can see above, over the last few months there has been an uptrend in commodities and a downtrend in domestic equities. March saw a drop in both, and while the drop in commodities was more severe, the price is still above the longer trend.

A closer look at March is in the chart below, to which I have added the Dow Jones Wilshire Total World equities index (DWGT, light blue), and the emerging markets ETF (orange). I expect it won't be long before the DWGT will replace the Russell 3000 as the relevant equities index. At this point, I can't find the historical data, and Russell wants \$5,000 for a similar index.

**Last Six Weeks. Commodities, Domestic and World Equities**



The chart below from [www.stockcharts.com](http://www.stockcharts.com) adds the US Dollar and the 30 year bond to the picture.



The speculative money is always going to move towards the best returns, and when credit shrinks and speculators get margin calls, there will be hiccups along the way. However, the fundamentals for commodities remain strong. My perspective is that domestic equities could rise for the intermediate term of two or three months, but they are equally likely to drop below present levels within the next six months. I think it is less likely that basic materials, energy and commodities will be lower in six months.