



Claremont Financial Group, Inc.
Registered Investment Adviser

Preservation and Progress.... Part III

In “Preservation & Progress” parts I and II, we wrote that we would need to see tangible improvement in the financial sector and the housing market, which are at the root of the economic crisis, before we begin building positions on the stock side of the portfolio.

The Financial Sector

Several pieces of news in the financial sector have kicked off the two-week rally in stocks we have seen.

First, CitiGroup and Bank of America’s CEO’s both came out and said that their respective firms were having the best January-February numbers in a couple of years (if they don’t account for losses in mortgage-related securities). You can imagine why we viewed this news with a healthy dose of skepticism. We await their first quarter earnings calls for confirmation on the veracity of their statements.

Second, General Motors announced that they would not need the \$2B Government bailout funds in March, but stopped short of saying they would not be using the remaining \$16B earmarked for their survival. Again, we weren’t about to buy into this market based on somewhat flimsy news from another nearly bankrupt entity.

However, this week we did receive some news that does give us the confidence to begin prudently building equity positions. The Treasury announced a long-awaited plan to remove up to \$1B in “toxic” assets from banks’ balance sheets. It was also announced that Congress was in favor of changing “marked-to-market” accounting rules. The current rules have been forcing the banks to value even non-defaulting mortgage related assets at next to nothing.

It appears the foundation for a recovery in financials is beginning to set.

The Housing Market

The housing sector has also begun to show some signs of stability based on several economic indicators, notably, sales of existing homes increased by 5.1% in February. In addition, the Federal Reserve committed last week to begin buying \$300B of Treasury Bonds in an effort to drive down the Treasury bond yields, thereby lowering mortgage rates in order to spur demand.

It is based on the developments in these two areas, financials and housing, that we announce the plan for Wilshire's Tactical Opportunities Portfolio. Starting in April, we will begin increasing your stock exposure in this portfolio by 5% per month throughout 2009, capping the exposure at 60%. The goal here is to have the portfolio fully positioned back to a Balanced Portfolio (approx. 60% stock/ 40% bond) to participate in the eventual recovery.

If any of you would like to speed up or slow down the transition back to a balanced portfolio, please call our office to discuss what is right for your particular circumstance.

Regards,

Gaetan and Nick Scalzo
Claremont Financial Group, Inc