



Woodward Wealth Management Group, Inc.

Registered Investment Advisor

2009 ECONOMIC AND MARKET REPORT

January 5, 2009

The initial fallout from the bursting of the long building bubble in our financial system began in July 2007, and, we believe ended on November 20, 2008 with a 12 week panic driven market meltdown.

Woodward Wealth Management is expecting a stock market rally in early 2009 which will serve as an important transition to the next phase of the bear market.

The rally may be led by some of the most beaten down market sectors including industrial commodities, technology, and energy and will likely be broad based. The rebound should last for several weeks – well into the first quarter of 2009.

The initial period of optimism may be partially political, partially seasonal, and partly relief from the darkest period in market psychology in many years. Daily moves in markets and individual stocks may continue to be sharp, volatile, and seemingly random. In this rebound the market may continue to ignore “quality” as lower rated issues may do as well or better than highly rated stocks.

As 2009 unfolds, the spotlight will shift to weakness in the real global economy. This will result in another round of market weakness. We will be tested by at least one major geopolitical event that could weaken market and economic recovery. Businesses will continue to struggle; a few will prosper; some will fail. Interest rates will stay low. Unemployment will continue to rise. By the summer, energy prices will have trended upwards. Real Estate will continue to struggle. By the fall, the credit markets will have started to loosen, and a *stealth* market recovery will have begun. Meaningful economic recovery will finally be acknowledged – in early to mid 2010. It may become clear that pumping trillions of dollars into politically favored but failed companies is bad policy and counterproductive. The entire “bailout” effort may come to be viewed as a waste and an albatross. Public anger may rise. Already, the Obama team has hinted at this by hedging their devotion to continued

financial bailouts with comments regarding utilizing taxpayer dollars for massive FDR style infrastructure projects.

In 2009 the U.S. and European consumer will likely remain under pressure to spend less, pay down debt, and save more. The financial sector will continue to grope for a viable new business model, and global governments will continue in vain to seek policies that address huge economic problems without requiring any pain or sacrifice.

The 2009 phase of the bear market could be more orderly and discriminating than the 2008 panic driven chapter because it may be driven by factors relating to a more understandable economic recession than by the tragically misunderstood bursting of the credit bubble.

2009 may be remembered more as a year of “repair” than a year of “recovery.”