

Sidoxia Capital Management, LLC

Year in Review, What's Next in '09?



Out with the old, and in with the new. A purging of historic proportions across the globe occurred in 2008, and now we are starting the year afresh with a clean slate. There are dramatic challenges we face economically, politically, and socially, yet with all this change experienced lie remarkable opportunities. Before we close the book on 2008, let's review some of the major events of the year and look

out into 2009.



JANUARY: Bank of America agrees to buy troubled mortgage lender Countrywide for about \$4 billion.

FEBRUARY: a) Microsoft unsuccessfully bids for Yahoo! at \$31 per share (now trades about \$12/share). b) Fidel Castro, the world's longest-ruling head of government, officially resigned as President of Cuba because of ill health. c) Jerome Kerviel, a trader at Societe Generale (France's second-biggest listed bank) is arrested in connection with \$7 billion in losses from alleged rogue trades.

MARCH: a) Eliot Spitzer (Client #9) announces resignation as New York state governor after reports of his involvement in a prostitution scandal. b) JPMorgan



Wade W. Slome, CFA, CFP
Author of *How I Managed \$20,000,000,000.00 by Age 32*

Mr. Slome is also the media go-to resource - he has been quoted in the USA Today, New York Times, Dow Jones, Investor's Business Daily, Bloomberg, Smart Money, among other media publications.

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Why Sidoxia?



Experience

Mr. Wade W. Slome managed one of the 10 largest growth funds in the country, at times exceeding \$20 billion in assets under management during his tenure.

Mr. Slome possesses a master's degree from Cornell University in business administration (MBA) with a concentration in finance.

Mr. Slome holds the highly regarded CFA (Chartered Financial Analyst) investment designation.

Mr. Slome maintains the

Chase agrees to buy Bear Stearns in a sale brokered by the Fed and the U.S. Treasury. **c)** Gold exceeds \$1,000 per ounce before subsequently retreating in price.

APRIL: The U.S. Internal Revenue Service starts distributing tax rebates checks as part of a \$168 billion economic stimulus plan.

JULY: **a)** Crude tops \$145 per barrel before based on emerging market demand and speculator trading. **b)** IndyMac Bancorp Inc., the second-biggest independent U.S. mortgage lender, is seized by federal regulators after a run by depositors depleted its cash.

AUGUST: Russia invades Georgia and Moscow announces its recognition of the independence of South Ossetia and Abkhazia

SEPTEMBER: **a)** The U.S. government seizes control of Fannie Mae and Freddie Mac, the largest U.S. mortgage-finance companies due to their troubled loans. **b)** Lehman Brothers Holdings Inc., the oldest U.S. investment bank, files the largest bankruptcy in history, and Bank of America agrees to acquire Merrill Lynch for about \$50 billion. **c)** American International Group Inc. accepts an \$85 billion loan from the Fed to avert collapse, and the government takes over the company. **d)** Goldman Sachs Group Inc. and Morgan Stanley receive approval to become commercial banks regulated by the Fed as tight credit markets forced Wall Street's two remaining independent investment banks to widen their sources of funding. **e)** Warren Buffett makes multi-billion investments in Goldman Sachs and General Electric preferred shares that provide special dividends and warrants. Warren Buffett subsequently urges Americans to buy American in an October New York Times Op-Ed piece. **f)** Washington Mutual Inc. files for bankruptcy and is seized by government regulators - its branches and assets are sold to JPMorgan Chase in the biggest U.S. bank failure in history. **g)** The House of Representatives rejects a \$700 billion TARP plan (Troubled Asset Relief Plan) to rescue the U.S. financial system, sending the Dow Jones Industrial Average down 778 points, its biggest point drop ever. **h)** Ireland says it will guarantee its banks' deposits and debts for two years.

OCTOBER: **a)** The U.S. Senate approves a revised version of the of the TARP rescue plan that was refashioned to entice enough votes for passage. **b)** Wells Fargo & Co., the biggest U.S. bank on the West Coast, agrees to buy all of Wachovia for about \$15.1 billion, trumping Citigroup's government-assisted offer. U.S. President George W. Bush signs the rescue plan into law. **c)** BNP Paribas SA, France's biggest bank, will take control of Fortis's units in Belgium and Luxembourg after an earlier government rescue failed to ensure the company's stability as the global credit crisis worsened. **d)** U.S. Treasury Secretary Henry Paulson indicates that pumping government funds into banks is a priority, reversing earlier strategy of devoting TARP assets to toxic mortgage debt. **e)** Iceland receives financial rescue package from the IMF (International Monetary Fund) due to currency collapse and over-leveraged banking system. Iceland's all-share index plummets about 95% in 2008.

NOVEMBER: Barack Obama is elected to become the 44th President of the United States as a result of his decisive victory over Senator John McCain.

DECEMBER: **a)** The White House announced a \$17.4 billion rescue package for the troubled Detroit auto makers (GM and Chrysler) that allows them to avoid bankruptcy. The deal is contingent on the companies' showing they are financially viable by March 31. **b)** Bernie Madoff arrested for his suspected ties to a \$50 billion "Ponzi Scheme". **c)** The Federal Reserve cut the Federal Funds target rate to 0% - 0.25%. **d)** Supposed Pakistani terrorists attack civilians at a famous Mumbai, India resort resulting in 171 people killed. **e)** Israel retaliates to increased shellings from Hamas by bombing the Gaza Strip and Hamas targets.

There is no doubt that these and other unfortunate events of 2008 have sickened the economy. Now that the patient (economy) has suffered a heart attack, we won't see the victim running a marathon anytime soon. In fact, the recovery will be painful as job losses and credit deterioration will continue to worsen as we work our way through the first half of 2009. However the patient has been given a lot of medicine and more treatment is coming. The Federal Funds Rate (the rate that banks lend to each other) has been cut to historic lows at 0.00% - 0.25%, and over \$1 trillion in stimulus will be pumped into the major global economies (U.S., Europe, and Asia) in the coming months. If the banks decide to stingily hoard cash then the Federal Reserve and Chairman Ben Bernanke have committed to readily stand by with 'Quantitative Easing' (printing press) as an additional device in its toolbox.

respected CFP®
(CERTIFIED FINANCIAL
PLANNER) certification.

Bloomberg identified Mr. Slome as the 2nd youngest manager among the largest 25 actively-managed U.S. mutual funds in 2005.

Strategy & Focus

Sidoxia focuses on diversified, tax-efficient, and low-cost investment portfolios, with the goal of achieving superior after-tax, risk-adjusted returns.

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We are also seeing mortgage rates come down and affordability rising as the U.S. Treasury seeks to push 30-year fixed mortgage rates down to the 4.5% barrier - healthy levels for new home buyers and those looking to refinance their mortgages. Besides lower mortgage rates, the massive contraction in new housing starts, combined with awaiting monetary programs to reduce toxic mortgage debt, we will eventually see declining housing inventories and looser bank lending lead to stabilization in home prices.

Investors got paid in 2008 to hide in the cash bunker but with short term treasuries effectively yielding 0% ("the mattress yield") and the dividend yield on the stock market passing the 10 year treasury, the fulcrum will eventually shift investors' appetite towards higher returns. Although fiscal and monetary policies around the globe will shape the slope of the U.S. recovery, the previous sixteen U.S. recessions since 1919 had an average length of thirteen months. Even if the severity of this downturn is worse than average, there is solace in knowing the NBER (National Bureau of Economic Research) confirmed this recession has exceeded twelve months in length - we have already traveled a great distance through the valley!

past performance may not be indicative of future results.

Get Your Head Out of the Sand



Get your head out of the sand and plan for 2009. It's that time of year where you begin to sift through those tall, looming piles of paperwork to assess your financial situation. Given the unprecedented volatility in the financial markets, the natural inclination is to bury one's head in the sand and ignore any necessary emotional or financial decision. Resist the standard default position to "do-nothing" or stash "money-in-cash" stance. Although this decision path may feel like a safe rational conclusion in the short-run, this strategy may be seriously damaging your long term financial plans. There is a difference between panicked fear and prudent conservatism.

In going through this essential review process, ask yourself the following questions:

- When will I be able to retire?
- How much savings will I need?
- How will I plan for rising healthcare costs?
- How much do I need to save for my children/grandchildren?
- Is my IRA/401k too aggressively positioned?
- Is my investment portfolio structured in a diversified, low-cost, tax-

efficient manner across a broad set of asset classes?

Whether you intend to build your plan yourself or through a trusted advisor, your financial future will benefit from a systematic, disciplined investment plan that takes into account your objectives, goals, constraints, and risk tolerances in light of future changing investment climates. If you were coaching a sports team, you can think of the investment plan as a playbook. Leaving all future decisions to "gut" instincts probably is not the best method. At different levels, investing requires both "art" and "science" - too much of either will result in suboptimal outcomes. Having a structured plan (playbook) will allow you to more confidently face tough future financial decisions. Even the great philosopher (a.k.a. The Zen Master) and Coach Phil Jackson, arguably the best NBA coach of all-time, doesn't let emotion solely rule his winning process.

"The ideal way to win ... is step by step."

-Phil Jackson (9-time NBA Championship Coach for the Chicago Bulls and Los Angeles Lakers)

Now is a perfect time to create or review your critical investment plan. We just experienced an incredibly dynamic year and investments are on SALE across asset multiple classes (i.e., fixed income, stocks, real-estate, commodities, and inflation-related securities to name a few). How long some of these securities remain on sale is unclear? But opportunities like these, to build and secure your financial future, likely will not last forever. Call Sidoxia Capital management today if you would like assistance reviewing or building your personally, customized investment plan ([949.258.4322](tel:949.258.4322)).

And the Oscar Goes to...



The New Year is upon us and that means two things: 1) Time to replace the old 2008 calendar with a fresh new 2009 variety; and 2) Oscar season is upon us. Up for the Best Actor in a Leading Role in "*Sleaze, Debauchery & Fraud*" is Bernard Madoff, former Chairman of NASDAQ, and Madoff Securities. Based on his tremendous achievements of swindling \$50 billion in investments over decades, he has qualified for a "Lifetime Achievement Award" for his sociopathic roles as a fraudster. Ironically investors kissed their money goodbye at Madoff's midtown-Manhattan office in the "Lipstick Building".

Unfortunately for his fans, Bernie will not be able to accept the award due to his house arrest in his \$7 million Park Avenue apartment. Accepting the award on his behalf will be newly appointed SEC (Securities & Exchange) Commissioner Mary L. Schapiro. I'm not sure if Madoff Hollywood victims like Steven Spielberg, Jeffrey Katzenberg, and Kevin Bacon would be thrilled about Madoffs glut of

awards? But for the right price, I'm confident they would be interested in working on the inevitable biographical Madoff screenplay...coming soon to a theater near you.

We have seen a number of large schemes and frauds over the last decade or so (Enron, WorldCom, Canary Capital, rogue traders Nick Leeson [Barings Bank] and Jerome Kerviel's [Societe Generale], etc.), and now you can add the Bernie Madoff scheme to the list. I can guarantee you, this will not be the last securities fraud or scheme we see or hear about. Greed and fear will always be a part of our financial markets and white-collar crimes will persist. Eventually, these scams are uncovered, people go to jail, lessons are learned, and productive changes are implemented.

Best Actor in a Supporting Role



The U.S. Government has committed over \$7 trillion to minimizing the impact of the financial and credit crises. We should not forget the President-Elect has a trillion dollar stimulus package (give or take a rounding error of a few hundred billion) in his pocket that will be used to kick-start the economy. Ben Bernanke and his Federal Reserve crew are also pulling out the "quantitative easing" money printing devices as

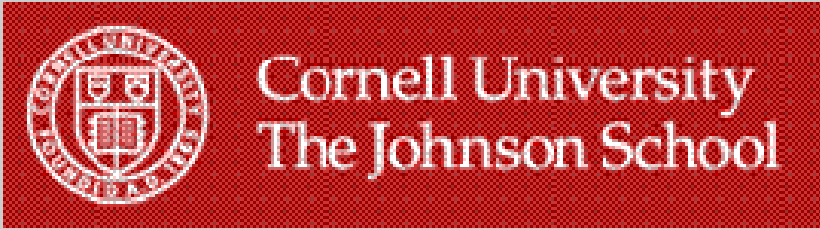
part of their award winning plan.

Best Supporting Actor in a Comedic Role



And the leading candidate in a comedic role is the Iraqi "Shoe Thrower". Thanks to President Bush's cat-like reflexes there was no harm or foul at the recent press conference held in Baghdad with Prime Minister al-Maliki. Regardless of your politics, you have to appreciate the humor in the foot flying incident. President-elect Obama will have bigger fish to fry than fluttering shoes, but let's hope Obama's fancy foot work on the basketball court will adequately prepare the President for anything thrown at him.

Sidoxia in School News



Sidoxia Capital Management and President/Founder Wade Slome were recently profiled in *Cornell Enterprise*, a written publication mailed to Cornell alumni, students and made available online.

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Animal Inquiries



T rue or False?

- 1) Slugs have 4 noses?
- 2) Cockroaches can live with their heads chopped off?
- 3) Dolphins sleep with one eye open?
- 4) Polar bears are left-handed?

*E-Mail responses to info@Sidoxia.com

ANSWER (to Last Month's Quiz) -

The correct answer to last month's poetry quiz: There are NO words that rhyme with "orange, silver, purple, month, scalp, breadth, and width." However, last month's Sidoxia quiz respondent, Bill Beecher from Derwood, Maryland, gets this month's, "A for Effort" award for his valiant attempt at poetic proficiency.

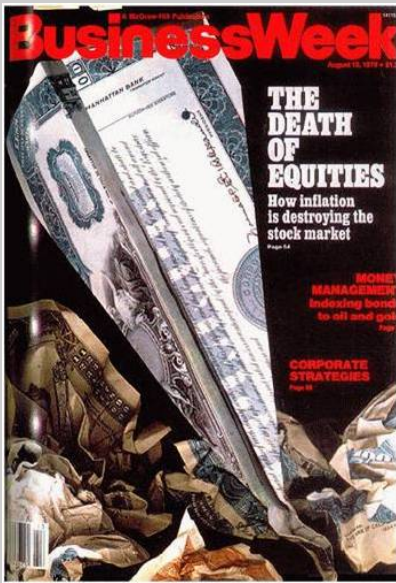
Here are his rhythmic responses:

Orange - Door-hinge
Silver - Dill-herb
Purple - Circle
Month - Hunt
Scalp - Ski-alps
Breadth - Death
Width - Myth.

Although I freely acknowledge Mr. Beecher's innate, God-given talent, I believe that Walt Whitman and Robert Frost's place in the poet's Hall of Fame has yet to be jeopardized!

Congratulations to Chris Buckstein, from Huntington Beach, California, for being the first person to supply the correct response.

Cover Crimes



I don't believe Nostradamus was in the magazine cover making business because his forecasts were much too accurate compared to current so-called media pundits. Cover story journalists have been notoriously poor at predicting future trends in the financial markets. Case in point, BusinessWeek's August 13, 1979 cover story entitled, "The Death of Equities." Needless to say, equities performed quite nicely, thank you. Over the ensuing twenty-year bull market run, the S&P 500 index increased about fifteen-fold (excluding dividends) and even after the massive 2008 correction is now up about ten-fold from that cover date period.

More recently we have seen the media drink the Kool-Aid, soaking in the dot-com "New

Economy" of the late 1990s, and predict endless prosperity before the markets came crashing down. Now the tables have completely turned with the press peddling fear with dramatic images of free soup kitchens and long unemployment lines. The current comparisons with the Great Depression are ludicrous when you realize that unemployment was about 25% then (currently we're around 7%), thousands of banks went under over the duration of the depression (we had about 25 close down in 2008), the average Price-Earnings (P-E) multiple in 1929 was expensively priced above 30 times earnings (the market peaked at a much more reasonable ~19x P-E valuation in 2007), not to mention taxes were raised significantly by the Herbert Hoover administration, unlike the massive stimulus and tax cuts coming President-Elect Obama's team.



Investors would be better served by being more judicious in their media consumption (i.e. turn off the TV). Better yet, perhaps sticking to a steady diet of Sidoxia literature and advice should serve that purpose?!

Quote of the Month



"Optimism is thoroughly lacking, and the greater long term risk probably lies in not investing."

-Howard Marks (Founder of Oaktree Capital Management and member of Forbes 400 Club)

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