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THE RAY REPORT

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Hope and Change

Watching the historic inauguration, I was struck by the change in the tenor and nature of Barack Obama's speech. The candidate of unbridled optimism and the candidate of "Hope and Change" had given way, even before his swearing in as President, to the man who realizes that he inherits a mess that words cannot fix. Only one year ago, anti-war and other left leaning constituents rallied around a man who was short on experience, but long on ideals. Ideals that seemed to fit with a war that had become protracted and an economy that seemed to be moving along.

The rapid deterioration in the economy and the improvement in Iraq broadened Obama's appeal, as McCain's self-proclaimed economic naïveté made Obama an easy choice for many voters who valued his new-style populism over military experience. As conditions even amongst more centrist voters continued to erode post-election and the market reaching new lows in November, Obama, the candidate of Hope and Change, became even more somber. He hit the ground running calling for economic stimulus and a temporary suspension of tax hikes. His tone remains a somber one and even his inaugural address is laced with words like sacrifice and danger. Obama's original message should not be lost however. Hope and Change remain essential ingredi-

ents to reviving an economy as difficult as any since the "Great Depression." Layoffs and home price declines show little sign of abating as companies and individuals lack confidence expecting the worst. As a result, the banks struggle with rising bad loans, defaults and credit deterioration.

Stock markets have been unable to look beyond the abyss because it is too deep and too wide. Policy responses have to date resulted in modest help, at best. Yet for all the money and effort thrown at the problem, skepticism reigns. If President Obama and his administration can change the perception that there is nothing that can be done to help this economic tsunami then the prospects of the stock market will change as well. Hopefully. If the administration can give individuals the confidence to buy a home or start a new business, the economy can move forward. The Bush administration lost the ability to make us feel good about ourselves in these difficult times. If Barack Obama, the "Hope and Change" candidate can strike a balance with the pragmatic President Obama, perhaps our animal-spirits can be rekindled.

Regards,

Joseph H. Ray, President

Market Performance For The December 2008 Quarterly Period

<i>Dow Jones Industrials</i>	- 18.40%
<i>Standard & Poor's 500</i>	- 21.85%
<i>Russell 1000 Growth</i>	- 23.01%

A Madoff Comment

Bernie Madoff's ponzi scheme came at a difficult time, as investors were hoping to get its sea legs after the difficult 2008. He is a black-eye to our industry and a poster child of greed: stealing from charities, pensions and individuals. There are a couple of points that are reinforced by this travesty. First, if the results sound too good to be true, they likely are, especially over long time periods. In years like 2008, when the markets were down 40%, you can only do so well if stocks are the bulk of your portfolio. Second, the separation of custody and money management makes sense in so many ways, as managers can only advise and not control your assets. This is the way we have done business since the beginning. Despite these difficult times, we always intend to act with transparency and integrity even if the results are challenging.

■ Quick Thoughts on the Cabinet

Hilary Clinton—Secretary of State

By far the most interesting of appointments. Mrs. Clinton will bring her own stamp to the position. This appointment may say more about Obama and his willingness to engage himself intellectually with people of various outlooks as well as his willingness to take some chances.

Tim Geithner— Secretary of Treasury

Tax issues aside, Geithner is accepted by Wall Street and was the hoped for or expected choice. In an environment where there is enough uncertainty on Wall Street without going with an unknown. That said, Tim Geithner's role in the collapse of Bear Stearns, Fannie and most especially Lehman, when he was supposed to be against allowing them to convert to a bank as Goldman and Morgan Stanley were, raises some red flags

Stephen Chu—Energy Secretary

With the collapse in oil prices, the "Pickens Plan" to reduce America's dependence on foreign oil appears dead. This is unfortunate because one of the cornerstone's of the plan involved the increased use of natural gas which is relatively cheap and abundant here in the United States. Chu, a scientist by training, will likely push an agenda away from fossil fuels and hopefully persuade the President on the value of nuclear power, which Chu

has previously advocated. I fear however, that this department will push for non-economic long term solutions that may or may not pan out.

Tom Daschle—Health and Human Services

The only growth industry in American since 9/11 has been healthcare. This effort to reform healthcare will be headed by a man who has not been industry friendly. FDA reform is also clearly needed, as drug approvals have become more difficult and costly. Removal of the inept FDA head Andrew Von Eschenbach would be a great first step that would benefit both industry and patients.

Simple Stuff

The economic crisis has become increasingly complex as job losses compound the problem of the balance sheets of financial institutions that already suffer from billions of toxic assets on the books. As the headlines get more discouraging, it is easy to see how the exasperated stock market participants simply want to go away.

Yet despite the "doom and gloom" there remains a few simple things that, for whatever reason, have failed to be enacted by Treasury and the SEC that can help restore some investor confidence.

1. Greater transparency for all financial institutions will be a must

going forward. The reduction in permissible leverage ratios will help but the establishment of an exchange for toxic assets should also be setup as soon as possible.

2. Suspend mark to market now. You can ask how one can advocate transparency and then say suspend the mark to market accounting which helped get us into this mess. Simple. There is no market, so how can you value the assets intelligently. A 2 year suspension would allow many of these assets to roll off and preserve capital at banks, while giving time to establish new markets for these assets. Mark to market is a relatively new accounting rule advocated by the SEC and has been a disaster. With SEC commissioner Cox gone, let's hope a repeal is considered.

3. Suspend trading in the Ultra Short ETF's. These levered ETFs mimic much of the activity that the SEC is trying to end, as it relates to short-selling of financials. It amounts to a levered attack against the banking system. Eliminate the SKF Financial Ultra Short and its partner in crime the credit default swap and the common stock of these banks will be preserved.

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