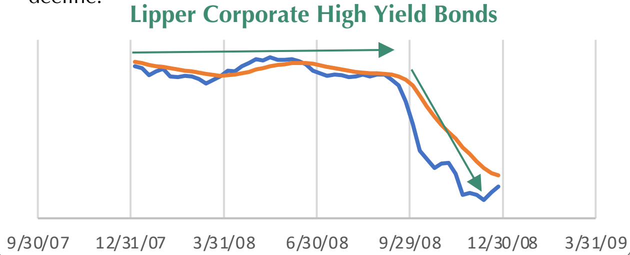
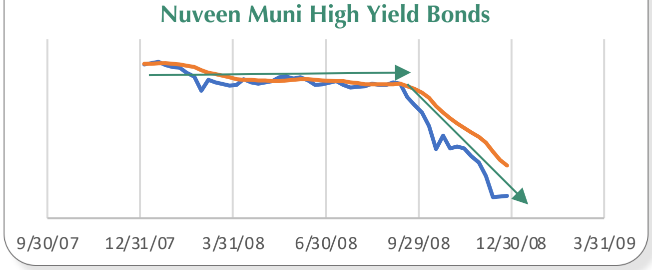
# A Look At History: 2008

UPDATE NOTES: The graphs below are weekly basis, total return graphs. The moving average in the graphs is not a signal line, it is a reference line only. The green trendlines illustrate the most recent short-term trends.

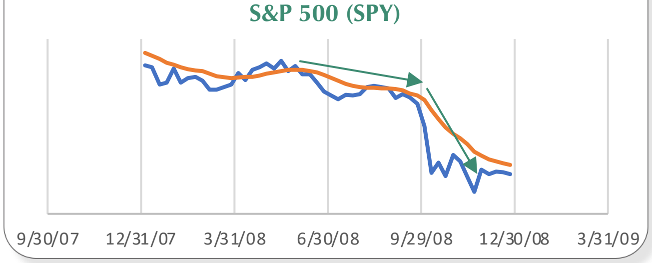
**Corporate High Yield (HY) Bonds:** In 2008, corporate high yield bonds peaked in the 2nd quarter at a lower level than they did in 2007. This was part of the topping process in HY corporate bonds that unfolded as the economy weakened. for much of 2007 and 2008 corporate HY bonds mostly drifted sideways with no persistent up or down trend developing. THEN, in late 2008, it became evident that the economy was in trouble which meant trouble for corporate HY bonds which is when our HY model went to cash where it remained for the duration of the decline.



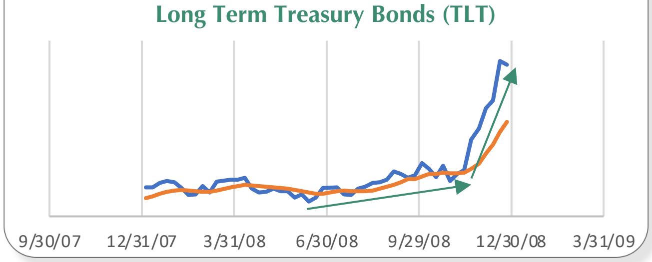

**Muni High Yield (HY) Bonds:** Very much like corporate high yield bonds, muni high yield bonds did not show significant sustained trends through much of 2007 and 2008. Also like corporate HY bonds, muni HYs drifted sideways for much of 2008 until the weakening economy became a concern for HY muni investors. At that point our model for muni HY bonds went to cash where it remained for the remainder of the 2008 decline. The exciting thing for HY investors is that, historically, HY bonds have large advances following their large declines.




**S&P 500:** The market environment model we use in our Reversal strategy became defensive in June of 2008. As economic fears set in and concerns over the U.S. financial infrastructure rose, stocks began to decline meaningfully during June of 2008. By July of 2008 our Reversal Model was spending most of the time invested in Treasuries which is its safe haven investment choice for this model. As GIS models are designed to do, our Reversal model along with our HY models were defensive during the height of the economic and market decline of 2008.




**Treasury Bonds:** Treasury bonds often, but not always as was seen in 2022, move in the opposite direction of stocks in times of stress. In mid 2008 Treasury bonds began to move higher as interest rates began to decline driven by the slowing economy. As a result, the reversal model began to spend much of its time in Treasury bonds for the balance of 2008. This agility to move from stocks to bonds helped the reversal model to have positive returns for 2008 despite the sharp decline in the economy as well as the stock and HY bond markets.





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Market commentary and update as of the market close 12/31/2008

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