

**"As investors, we can't change the course of events, but we can attempt to protect capital in the face of foreseeable risks."**

**-David Einhorn**

Hello Everyone,

Stocks took another beating last week and particularly on Friday, as they were ambushed during a session that had every right to be upbeat and positive. When you look around the market and see some very good companies with **black eyes** and **bloody noses**, you know something very unusual is happening.

The art of long-term survival on the Street is not much different from the law of the jungle. Animals are hyper-aware of their surroundings, with more than five senses to draw from, and tend to retreat at the least sign of trouble. They are always on high alert for anomalies -- wondering why things are happening that are not supposed to happen.

Right now the anomalies are really stacking up. Companies that are reporting good earnings are being crushed even if their forward guidance is positive. Even some companies that are reporting great earnings are not being taken up on their upbeat outlook, and are languishing. Small caps, which usually shine at this time of year, are in the discount bin. Techs, which equally shine in January, are performing even worse.

The most unusual thing I am seeing is the lack of liquidity. My colleagues who work as market makers, providing the opposite side of trades for brokerages that are obligated to maintain deep markets for customers, say that they have rarely seen large-cap tech stocks gap up and down during the day as much as they have in the past couple of days. In Friday's session, Microsoft (MSFT) was moving as much as 30 cents at a time, which is incredible for a company of its size.

From a fundamental point of view, you have probably noticed that I have guided you in the past two weeks to a much less volatile portfolio, selling 3 of our highest performing funds early to retain their gains and reduce our risk.

The one thing I am quite worried about now is the S&P 500 Index giving up its 100-day average and several uptrend lines dating back to March. These were levels that had held since March, and the fact that there is little support now is making the trend-followers scatter.

The temptation is to think that next week will reverse this week's troubles, and that may still be the case. But you seldom get ruptures of this nature without further high-volume declines to truly put fear into people. So we sold another fund on Friday to further reduce our risk, if these support lines do not hold.

The bottom line is that many long-term measures of market health are still positive; including breadth, but the deep correction that has been overdue is now upon us. If it transpires like many other such corrections in the past decade, it won't be over until at least mid-February. I'll be in touch next week with further updates.

Thanks for reading.

Sincerely,



Valerie Holcomb, Shari Hooper & Brian Harris  
Cascade Financial Group

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