



DOUCET ASSET MANAGEMENT, LLC

Quarterly Newsletter
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DOUCET VALUE MOMENTUM PORTFOLIO
DOUCET VALUE INCOME PORTFOLIO
DOUCET MANAGED PORTFOLIO
BIENVILLE MODEL

April 2009

Change the Market Can Believe In...

The mindset of the financial world has gone from one of “irrational despair” to cautious optimism in the last several weeks. One certain sign of this renewed sanguinity is the same negative headlines seen just a few weeks ago are now *not* producing the same deafening panics in the markets. There is still plenty of bad news around! However, the market has absorbed recent bad headlines in stride, rising of late like a phoenix from the ashes.

So why the sudden change? As we stated in our March 9th Special Update:

“Yet our dark and depressing economic situation could brighten, almost overnight, if the government would realize what most Americans already know – no matter how much money is thrown at banks and spending programs, the markets, and the overall economy, will not rebound until structural issues at the heart of this economic tsunami are ameliorated. This market will run like a “scalded cat,” as my grandfather used to say, when our political “leaders” finally understand this is, and will continue to be, a capital problem, not a liquidity problem.”

And it did run! The S&P 500 is up as much as 28% from its low only eight weeks ago. The market has voted: Change the market can believe in, as it turns out, involves addressing the structural and capital issues which have plagued both Main Street and Wall Street.

Market Reaction

In previous newsletters and client updates, we stated it was not a question of whether stocks, corporate and municipal bonds were cheap on a relative, historical or any other basis; the question has been whether they would get cheaper. Cheaper they got, primarily because nothing was being done structurally to address disappearing capital. Instead, the government continued to throw liquidity at the problem. For months, the market has been screaming that “stimulus” programs alone were much like pouring water into a bucket with a gaping hole in the bottom.

In the last several weeks, actions have finally been taken to address the aforementioned structural issues and the market responded as such:

1. **March 10, 2009:** Discussion of Suspending “Mark to Market Accounting (MTM)”

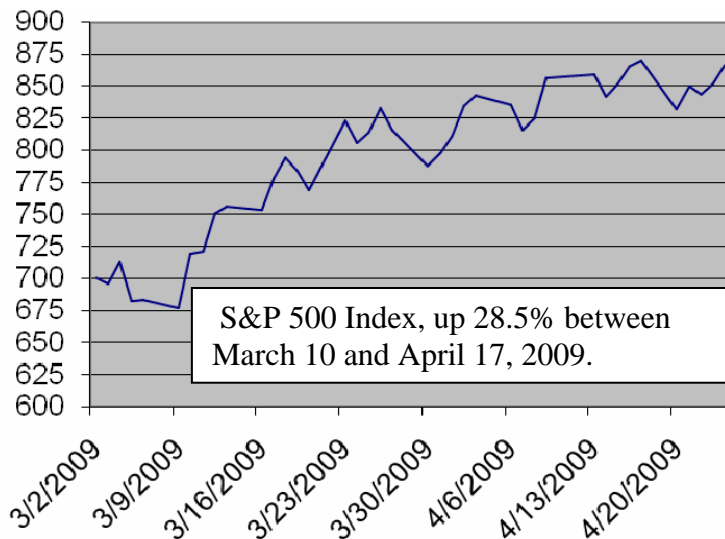
- ✓ William M. Isaac, a former chairman of the FDIC, told a House Financial Services subcommittee hearing that “MTM accounting has destroyed well over \$500 billion of capital in our financial system.” Since capital can be leveraged about 10 times in making loans, the rules have “destroyed over \$5 trillion of lending capacity,” said Isaac.
- ✓ **S&P 500 Index was up 6%.**

2. **March 23, 2009:** Aggregator Bad Bank – Creation of the Public-Private Investment Program (PPIP)

- ✓ U.S. Treasury Secretary Geithner announced the creation of a public-private partnership to purchase as much as \$1 trillion in devalued real-estate assets and other securities, using \$75 billion to \$100 billion of the Treasury’s remaining bank-rescue funds. The purpose of the program is to stabilize the financial system so that banks begin lending and secondary markets begin functioning once again.
- ✓ **S&P 500 Index was up 7%.**

3. **March 26, 2009:** Financial System Regulation Bill Introduced in Congress
 - ✓ The Obama Administration unveiled the Financial System Regulation Bill, aimed at overhauling how hedge funds and financial derivatives, including credit default swaps (CDS), are regulated. Particular to CDS, margin calls would have prevented the buildup of excessive counterparty risk. In the U.S., regulatory approval is pending for two different CDS clearinghouse ventures, one led by the CME Group and the other by the Intercontinental Exchange (ICE).
 - ✓ **S&P 500 Index was up 2%.**
4. **April 2, 2009:** The Financial Accounting Standards Board (FASB) approved making adjustments to Fair Value Accounting, FAS 157 (Mark to Market Accounting)
 - ✓ FASB approved changes to FAS 157, allowing the assets to be valued at what they would go for in an "orderly" sale, as opposed to a forced or distressed sale. The new guidelines will apply to the second quarter that began this month. While write downs might still be required, auditors can now use "significant professional judgment" when valuing illiquid securities.
 - ✓ **S&P 500 Index was up 3%.**
5. **April 8, 2009:** Reinstating the Uptick Rule and Regulating Short Sales

- ✓ U.S. securities regulators floated five new proposals to curb short selling. The five-member Securities and Exchange Commission voted unanimously to seek 60 days of comment on the proposals, including bringing back an "uptick rule." The SEC will hold a roundtable discussion of the issues on May 5. Final action is likely at least two months away.
- ✓ **S&P was up 1% on that day and up 5% over the next 3 trading days.**



Source: Yahoo Finance

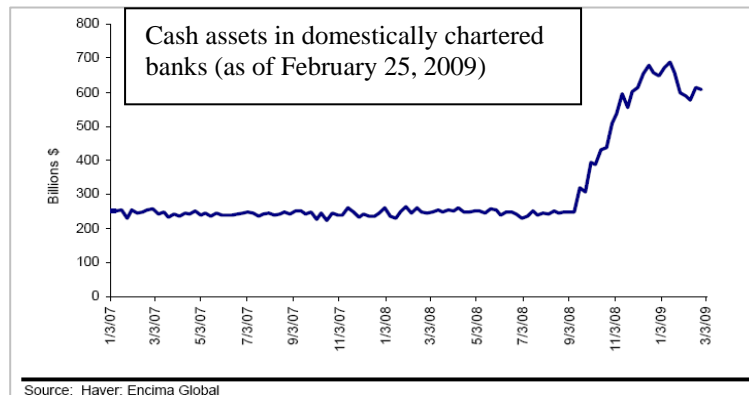
The cost to taxpayers appears to be **ZERO** for the aforementioned actions, much less than \$12.8 trillion (or approximately \$43,000 per U.S. citizen) our government has committed to the recovery so far!

Signs of Thawing

So, is the worst over? No one can say for sure, but it is undeniable that the capital bolstering measures announced over the last six weeks combined with previous Fed actions have helped to melt previously frozen markets across the board. We see the following as significant signs of "hope:"

- **Corporations actively issuing new bonds:** Companies have issued an average of \$5.98 billion in bonds per day since the beginning of the year versus an average daily volume of \$2.94 billion since January 2001, with the highest daily total in the last decade (\$27.4 billion) issued on February 18, 2009.
- **New Issue Municipal Bonds:** New issue municipal bonds have been significantly oversubscribed in California (lowest credit rating of all 50 states), New Jersey and Massachusetts in the past several weeks, indicative of strong demand.
- **IPO Equity Market:** Rosetta Stone (RTS) is the first IPO to price above its estimated range in over a year, a signal of investor's willingness to take on risk.

- **Slowing rate of decline in economic activity:** In his April 14, 2009 speech Fed Chairman Ben Bernanke stated, "Recently we have seen tentative signs that the sharp decline in economic activity may be slowing, for example, in data on home sales, homebuilding, and consumer spending, including sales of new motor vehicles. A leveling out of economic activity is the first step toward recovery."
- **Cash on deposit in domestic banks:** Banks have cash, perhaps as much cash as they have ever held. Actions aimed at bolstering and preserving bank capital will encourage banks to begin lending, potentially releasing a flood of credit.



Headwinds

While signs of recovery abound, substantial headwinds still exist, specifically related to the following:

- **Housing:** The Case-Shiller 20-City Home Price Index was down 19% in February vs. the prior year and down 2.2% from January. Prices now stand at 2003 levels. Housing inventory overhang continues to weigh on prices. Historically, "prices respond very dramatically to inventory," says William C. Wheaton, director of research at the Massachusetts Institute of Technology's Center for Real Estate. While inventory is still high in many parts of the country, in particularly hard hit areas like California, inventory has fallen from 15.3 months to only 6.5 months suggesting those markets are getting closer to a bottom.
- **Unemployment:** Stubbornly high unemployment's impact on consumer spending requires no explanation. Officially, unemployment sits at 8.5%, but this number is likely understated because it fails to include people who have stopped looking or have taken part-time work. We believe the broader number would likely exceed 15% and much of the carnage has occurred in just the last six months. The spike in unemployment will continue to be a significant deterrent to discretionary spending.
- **Consumer Debt:** According to *Business Week*, the ratio of overall debt to income is still more than 30% above its long-term trend. Between 2002 and 2007, U.S. mortgage debt expanded nearly 12%-per-year. Nevertheless, outstanding household debt actually shrank in the final quarter of 2008 for the first time since the data has been collected (1952). Economists believe efforts to pay off debt and lift savings will keep consumer spending, this year and next, well below its long-run growth rate of about 3% annually.

Pullback?

Market pundits have been noisily predicting another market pullback now for several weeks. Despite their conclusion that the market is due for a retrenchment, the market has resisted. The Dow Jones Industrial Average (DJIA) has not declined for more than two consecutive days in eight weeks. Consider these additional points:

- As of March 9th, the DJIA fell to a 12 year low. This is rare. The DJIA has only retraced 12 years of gains twice in the history of the index. In both previous occurrences, the lows suggested the end of the bear market was at hand and the DJIA rose over 50% within a year of hitting the 12-year low date. Stock of smaller companies rose even more.
- During the latest bull market (ending October 2007), the S&P 500 index barely doubled during a 5 year span. Before the 1929 crash, the Dow was up six fold in 5 years. Leading up to the 2000 tech bubble, the S&P tripled over the prior 5 years.

- After the last recession, companies did not increase staffing significantly. Non-farm payrolls, a measure of job creation, rose 1% from the beginning of the recovery in late 2001 through the end of 2004. The recovery period was termed a “jobless recovery.”
- During the market surge in the past several weeks, two sectors paced this sharp upturn, financial stocks and retailers, up nearly 80% and 44%, respectively. Combined these sectors account for net short positions of almost 8 billion shares, suggesting that a significant part of the rally has been due to shorts running for cover.

The market did not inflate as much as periods leading up to previous recessions; companies did not substantially expand hiring following the end of the last recession; the DJIA recently fell to a 12 years low; and there is evidence the market's surge was not fueled by individual investors. Record levels of cash held by investors remain on the sidelines looking for a home.

Final Thought

It is human nature to assume, when in its midst, a bear market will never end; however, logic, supported by history, dictates all markets have cycles and all economies have booms and busts – neither of which lasts forever. In our January 2009 newsletter, we stated that as confidence returns, investors would begin to venture out on the risk curve in a predictable pattern. Confidence is seeping back into the markets. They have absorbed a punch of historical proportions over the last 18 months, but tangible signs exist that we may be in a better position than the media may lead you to believe.

If you have any questions regarding your account, the securities or the portfolio in general, please do not hesitate to call Rebecca, David, Roland or myself.

Sincerely,



Chris L. Doucet
Chief Executive Officer

Admin Notes:

- Form ADV: Please contact our office at (205) 414-9788 if you would like to receive a current copy of our Form ADV II or the Schedule H Brochure.
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