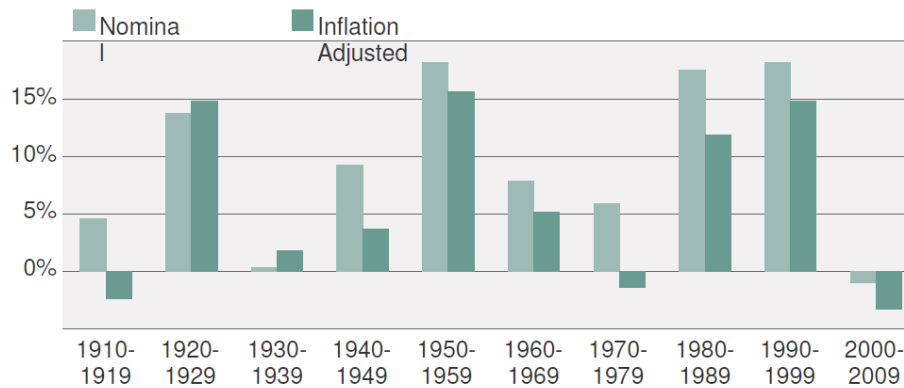


Worst Decade Ever for Stock Market **2000-2009**

Returns for the S&P 500 by Decade



Source: Charles Jones, North Carolina State University

Composite / Index	Q4 %	YTD %
Regan Macro Absolute Return*	+ 4.08	+ 13.21
HFRX Absolute Return Index	+0.21	- 3.58
HFRX Macro Index	- 1.52	- 8.78
Dow Jones Industrial Average	+ 7.37	+ 18.82
S & P 500	+ 5.49	+ 23.45
NASDAQ	+ 6.91	+ 43.89
Balanced Composite (60% Wilshire 5000 & 40% Lehman Aggregate Bond)	+ 5.40	+ 21.50
Gold	+ 9.21	+ 25.04
Commodity (DJ AIG)	+ 14.2	+ 41.21
Vanguard Treasury Money Market Fund	+ 0.01	+ 0.25
Oil	+ 12.4	+ 77.94

Performance numbers for the Regan Macro Absolute Return composite are back tested with best efforts internally by Regan Investments and not audited by outside parties. Past performance should not be regarded as an indication of future returns. Share values in the accounts will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original investment. All other performance numbers for listed indices, managers, and stocks in this report are not verified by Regan Investments. They are taken from public sources and Regan Investments does not claim any responsibility for their accuracy. For a complete list of our sources, or a detailed explanation on how we calculate our internal numbers please contact Regan Investments directly.

* Net of Fees

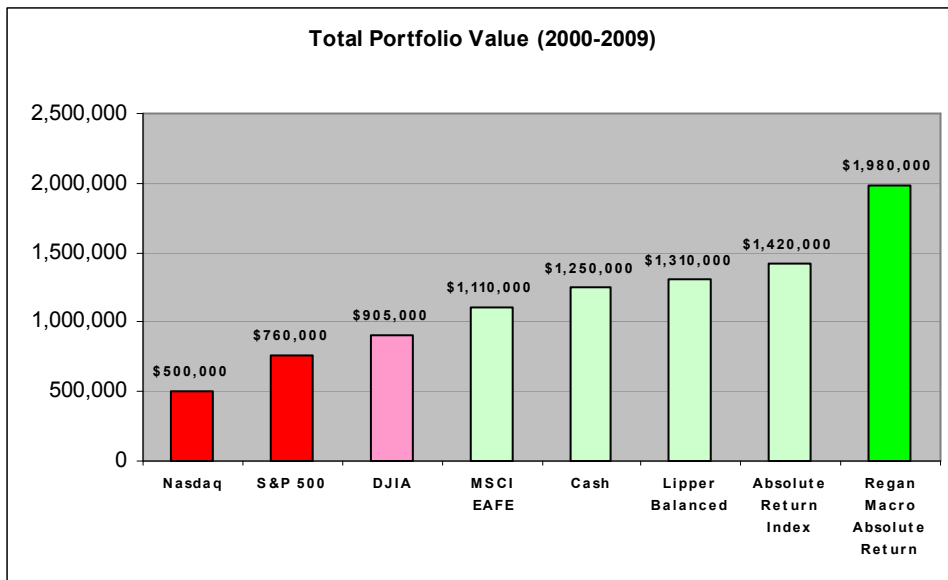
What A Decade...For Some

Suppose you gave your son-in-law \$1,000,000 to look after on January 1, 2000. He fancies himself as an investment wizard. After all, he made a ton of money in 1998 and 1999 on internet stocks. He is a broker at one of the large firms so your money is safe, isn't it?

This nest egg was meant for your retirement which, if he's successful, might be about 10 years from now. Based on historical average stock returns (10%), you've figured that your money would probably be in the neighborhood of \$2-2.5M. Cash has historically earned 5%, so at retirement, you will have about \$125,000 in retirement income. Home values have rarely, if ever, gone down. Your job is secure. This should be smooth sailing. Even if your son-in-law only earns you 7%...

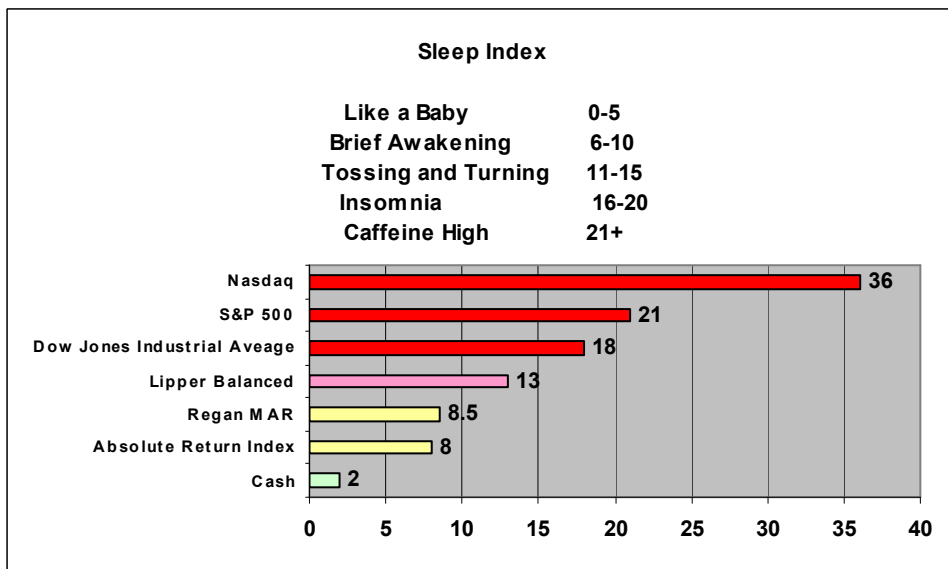
Sadly, it is a too familiar story for a lot of people. In fact, during the past decade, it wasn't just hotshot son-in-laws who were burned. A lot of smart and successful people were hit. Years of hard work and diligent saving have led to drastically altered plans as the one time pillars of stability crumbled not once (2000-2002), but twice (2008).

The first chart to the right shows how your son-in-law did with your money had he invested in any of the most common indices, cash, or Regan Investments.



Obviously, our portfolio did well. Gold, oil, and commodity indices outperformed us by significant margins over the decade but very few people had the nerve to put 100% of their dollars in commodities.

Most of our client's are familiar with our *smooth the line, tortoise and the hare, sleep at night*, analogies and we hope you appreciate our attempt (chart 2) to create a sleep index using annualized standard deviation figures.



Statisticians please note: We prefer using the Sortino ratio which does not punish upside volatility. Please feel free to inquire if interested.

2009 IN REVIEW

Wall street truly climbed a wall of worry as the markets did very well in 2009. Investor optimism was sparked by low interest rates, accounting rule changes (mark to market), government stimulus, and the severe sell off in 2008/2009. Apart from the dollar, most investments performed well. While cash may have been king in 2008, it was a horrible place to be in 2009.

Is this a new beginning? Politicians talked of “green shoots” in an effort to build up the idea of a recovering economy. Our feeling has been that a misallocation of stimulus, timidity amongst lenders, and a weak consumer will ultimately have economists agreeing these shoots have “no roots”.

So who’s right? Optimists will tell you that the stock market is a leading indicator, while pessimists may have you look at the Fibonacci 50% retracement principal. Or, some may view the tapped out consumer as a headwind while others think high corporate cash levels offer a tailwind. Additionally, there is plenty of cash on the sidelines in retail money market funds. However, equity mutual funds have very low levels of cash available. Is the glass half full or half empty?

While this newsletter might suggest we are more *doom and gloom* than *duckies and bunnies*, we are very excited about the future. Even in the worst crises in history, there has been very good money to be made. In fact, we were bearish in 2000, and as we have shown, our model portfolio grew by almost 100% since then. Let’s hope the next ten years are as rewarding.

PERFORMANCE

We are very happy with our performance in the absolute return accounts in 2009 (see cover page) considering that our volatility (risk) level was less than half that of the S&P 500. In most cases, we will underperform a bullish market and outperform a bear market. While we try hard to achieve a positive annual return each year, our core goal is to achieve +3-5% above inflation over a rolling 3-5 year period. This allows for our clients to perform well over the long term in real return metrics while still being able to sleep at night.

The last decade was a perfect example as our model account grew by 100%. Coincidentally, the Dow Jones Industrial Average is down nearly 10% and the Nasdaq is down roughly 50% since the beginning of 2000. However, there are always areas for improvement. Some of the areas we wish we could redo in 2009 include the following:

1. **Stock market participation** — We made a very nice tactical move in early 2009 by increasing our equity percentages from flat levels to roughly 30%. This allowed us to take advantage of the discounted market. However, we were too cautious in our approach and quickly adjusted down again to roughly 20%. In hindsight, we should have let our holdings run with the market. Our stock holdings are defensive in nature and were still largely undervalued. Allowing these high quality names a little more room would have provided us more return.
2. **Bonds** — Again, it was a very nice tactical decision to buy short term corporate bonds yielding 5-7% in early 2009. We increased our bond holdings from roughly 15% to 35%. These bonds appreciated very nicely in 2009, and we wish we had bought more.
3. **Commodities** — While we sold most of our oil related stocks at the high in 2008, we completely missed the run-up in 2009. We sold our position in natural gas because of short-term volatility, but in hindsight, we should have kept our position.
4. **Gold** — We tried to hedge our gold positions because we felt an advance in the US dollar was imminent. However, we did not hedge enough, and gave some of our returns back towards the end of 2009 when gold declined.

LOOKING AHEAD TO 2010

There are many issues on the horizon that have the potential to greatly impact not only investment returns, but also, the core fabric of American society. Democratic principles and capitalism seem to be in play. We have compiled some of the major issues facing us in 2010 and beyond. If history repeats, we will be right on half and wrong on half. The key isn't whether we got it right on January 1st, but rather, how we react throughout the year. The ability to not lose, and to keep ahead of inflation are key until the issues below are resolved.

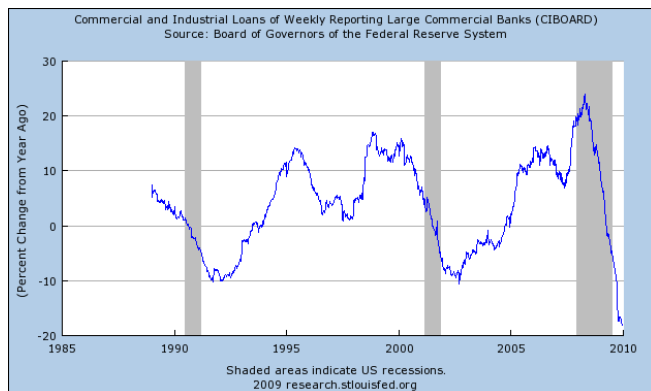
- Jobs** — Depending on who you believe the unemployment rate is currently somewhere between 10-22%. It is tough to be too optimistic about growth in our economy with such high rates.

While seasonal hiring and birth/death counting irregularities will create optimism in the beginning of the year, we think new job losses will continue. More importantly, disgruntled workers that are not counted in the official numbers will increase. This will lead to continued downward pressures on the growth of our economy.

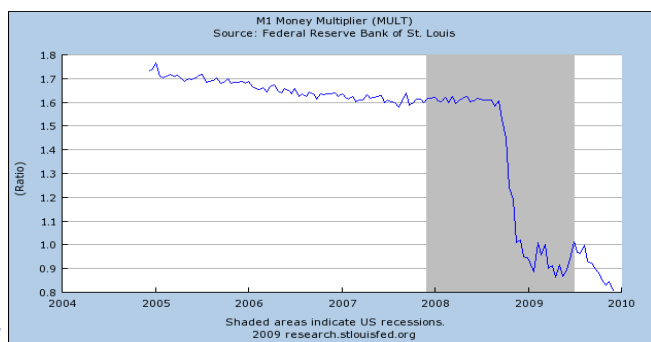
Small businesses are responsible for 80+% of jobs. Most of these owners are delaying new hire initiatives because of fears of future taxes and the financial burdens of the proposed healthcare bill.

- Consumer Spending** — Household debt levels are beginning to decrease. However, a lot of this is debt being written off as borrowers default on their loans. For those with jobs and low debt, wallets are beginning to open but these people are bargain shopping. For those without jobs, discretionary dollars are hard to find. De-leveraging is the name of the game.

- Bank Lending** — The first chart to the right shows commercial and industrial loans have decreased by nearly 45%. Banks will likely sit on profits offered by a favorable yield curve. This will help banks somewhat, but it will also limit the availability of funds to borrowers. Again, It is tough to be optimistic about a recovery while credit is contracting.



- Inflation/Deflation** — While many agree that inflation looks certain based on the amount of money that is being created by the Federal Reserve, the second chart on the right shows the M1 money multiplier (M1 to Adjusted Monetary base) has cratered. If the multiplier is growing, money is being created. If the multiplier declines, banks are not lending and deflation is at hand.



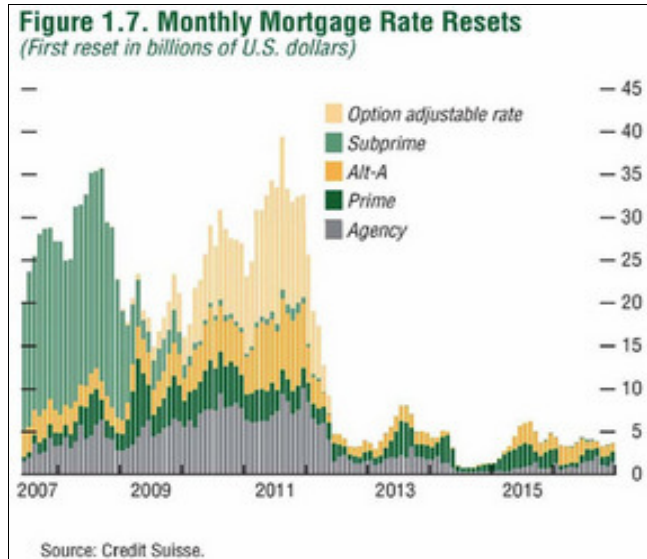
We believe that deflation, similarly to what Japan has experienced over the last 20 years, is more of a problem for the US over the next one to three years. At some point, Bernanke will decide that deflation will have to be beat at all costs and he will print more money than anyone would have imagined. Thus, this will lead to increased inflation in the monetary supply.

- Interest Rates** — Even though the Fed hints at raising rates at some point, it is difficult to imagine short rates rising in a deflationary environment. While rates eventually will rise, a weak economy and a preferred “weak dollar” policy will likely keep rates near current levels for the year. Longer term rates are more difficult to predict for 2010.

LOOKING AHEAD TO 2010

6. **Real Estate** — The housing market will probably continue to show some signs of life as buyers look to take advantage of bank owned properties, low interest rates, and government giveaways.

Two problems for residential real estate are future interest rate resets (chart 1) and a large amount of off market supply that could come online in 2010 and 2011. In addition, if our assumptions about jobs losses, credit defaults, and bank lending standards are true, quality buyers and willing lenders will be hard to find. Continued defaults in commercial real estate will be a headwind as well.

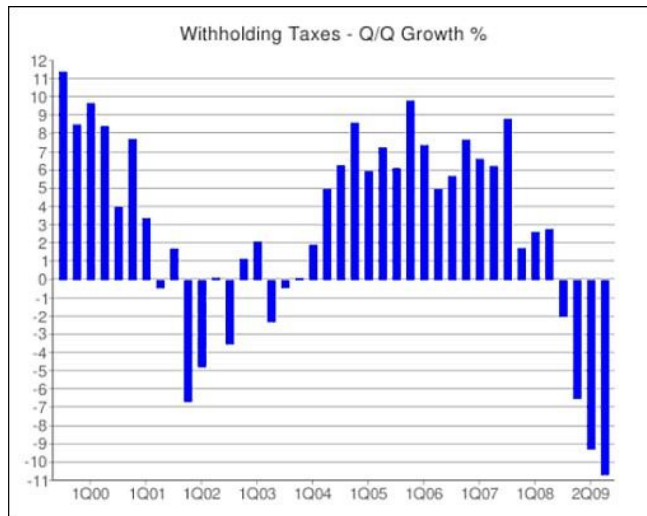


7. **Taxes** — We are fairly certain that our leaders will continue to spend money. Even if spending stopped altogether, it probably would not change the fact that taxes will have to rise at some point. Our unfunded liabilities are enormous, many of our states are bankrupt, and loss of jobs and businesses have severely hurt tax receipts (Chart 2 courtesy of John Mauldin).

The Healthcare, Cap and Trade, and other potential bills will ensure that taxpayers are on the hook for many years to come. The interesting thing to watch is how taxes will rise. A VAT tax is a real possibility and while it might sound nice on the campaign trail, it won't be. As former Minister of Finance under King Louis XIV, Jean-Baptiste Colbert said:

The art of taxation consists in so plucking the goose as to get the most feathers with the least amount of hissing.

8. **Stock Market** — After the spectacular run-up of 2009, we believe a pullback will begin to take place sometime in the February to March timeframe. After that, another run-up is probable with a more significant decline later in the year.



We think the market may end 2010 somewhere in a range of +/- 10%. While not exactly a Nostradamus like prediction, there are too many unknowns that will shape 2010. This market is overvalued and facing significant headwinds. We also understand the irrationality of the marketplace and the drive of governmental interference, especially in a mid-term election year.

9. **Bonds** — If deflation continues, bonds should be a decent place to hide for a while. Shorter maturities will be heavily favored as inflation looms on the horizon. We are wary of municipals and high yield offerings, but still like high quality 1-5 year corporate bonds for decent yields and protection of principal.

10. **Commodities** — Deflation is bad for the price of commodities but inflation is good. Apart from gold (monetary hedge), we are on the fence for the short term outlook of commodities and can make the argument both ways. We look to build small positions in 2010 to prepare for future inflationary forces.



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*Thank you for your continued faith and support,
and we wish you a wonderful New Year!*

Robert, Robert Jr., Erle, and Cynthia

December 31, 2009