

Review for the 2nd quarter 2009 and future outlook

The best quarter since....

Like a category five hurricane that gets downgraded to a tropical storm, our financial markets took great comfort in the feeling that a horrible situation was averted.

During the 2nd quarter of 2009 financial markets saw tremendous rallies that pushed prices significantly higher. It was the best quarter since 1998 for the S&P 500 index and the best quarter since 2003 for the Dow Jones Industrial Average. Quarterly returns for the S&P and Dow were 15% and 11% respectively.

The quarter was also a period that allowed the financial markets to heal. The credit markets which were at the center of the crisis, continued to improve and strengthen. As investors became more confident, assets were shifted away from safe havens like money markets and U.S. Treasuries—and into stocks and non-government bonds.

‘Less bad’ = good!

While we are not sure how the phrase originated, ‘less bad’ has become the catch phrase for helping to explain the rally in the 2nd quarter. Like a hurricane that gets downgraded to a tropical storm the financial markets experienced news and events that were not as bad as expected. As a result investors perceived things to be ‘less bad’ and revised their expectations.

Sorting through the details

Due to the positive feedback we received from our last newsletter, the next section will outline some frequently asked questions (or questions we think you want answered). While we cannot cover every topic in the context of this letter, we encourage you to contact us if you have questions that are not covered.

Is the financial crisis over?

We believe that the worst is over but challenges still lie ahead. The 2nd quarter was the start of a long healing process for the financial markets around the globe. The stock markets, which were expecting the worst, viewed the healing process as a reason to invest—and the ‘less bad’ scenario took hold.

What’s next for the stock market?

The short term is hard to predict but longer term we are optimistic. The tremendous rally started after the stock markets hit their low point on March 9 followed by a rally lasting until June 12. This is what many like to call a ‘relief rally’ which means that investors were relieved that the economy did not collapse and that the news reports were not as bad as expected (i.e. ‘less bad’). What happens next depends on U.S. corporate earnings reports that are being issued as this newsletter goes to print.

Can the economy recover while unemployment remains high?

Yes. The unemployment rate is a cruel reminder of how deep the recession is. However, unemployment tends to be a lagging indicator which means that it usually spikes up after a recession has already started—and then declines after a recovery is underway.

Is now a good time to invest?

Yes. Your investment mix will depend on your specific investments goals and risk tolerance. Typically we’ll diversify a portfolio using some or all of the following: no-load mutual funds, exchange traded funds

(ETF's), bonds and individual stocks. To help minimize risk for certain clients, we also invest in FDIC insured certificates of deposit, U.S. Government Treasuries and treasury inflation protected bonds (TIPS).

Should I worry about the banks?

No. Your money is safe. However it's important to have a healthy banking system to foster lending and stimulate growth. The banking system is a central part of our economy and we believe that the U.S. Government and the U.S. Federal Reserve have done a very good job in managing the banking crisis.

What is the outlook for the remainder of 2009?

Optimists and pessimists will probably agree that for stocks to post a rally into the second half of the year it will require solid evidence the economy is improving—and not that the decline has slowed. As mentioned earlier, we are long term optimists and seek out investment opportunities in good times and bad.

Going green – save a tree

Did you know that you can receive your statements online? This feature allows for convenient e-delivery of statements—and it's good for the environment too! Please contact us to learn more.

Enjoy the summer!

We appreciate and recognize the trust you have put in us and your confidence continues to be our highest priority. Please contact us with any questions—or to schedule a review.