

Review for the 3rd quarter 2009 and future outlook

‘It’s not how you look—it’s how you feel!’

Billy Crystal, the actor, once played a character named Fernando Lamas on the hit TV show Saturday Night Live. Mr. Crystal’s character was known to say “you look marvelous!” indicating that it’s more important to look good than to feel good.

Stock market psychology sometimes works in a similar fashion and we anticipate the next round of earnings reports, coming due as this newsletter goes to print, will validate if the stock market is overly priced or has room to go higher (i.e. looks marvelous!).

Needless to say it’s important to not just look good, but to feel good. The government stimulus programs and the support provided by the Federal Reserve have had the effect of making the economy ‘look good’. Eventually companies will need to start hiring as a sign of a true recovery. We think this will happen—but it will take some time.

‘Dr.’ Bernanke and signs of stabilization

In mid-September, Federal Reserve Chairman Ben Bernanke made a bold statement by saying that “the recession is very likely over”. For the past 18 months, The Fed chairman has acted more like a doctor treating a very sick patient, the U.S. economy. The Fed and the U.S. Government prescribed a variety of ‘fiscal’ medications which is finally stabilizing the patient.

So, it came as great comfort to many, that Mr. Bernanke was offering an optimistic diagnosis of his patient, the U.S. economy. However, just like anyone that has been through the intensive care unit, the recovery process typically takes a while—and future habits need to change to avoid a relapse.

The new ‘R’ word

The financial markets continued to confound the skeptics and finished out the quarter near its high for the year. It was a similar story for bonds with high yield and lower rated issues performing best. To many this was more evidence that the recession has transitioned—and the new ‘R’ word is recovery.

The best quarter since 1998

The Dow Jones Industrial Average jumped 15% in the past quarter for its best three month gain since the 4th quarter of 1998. The performance was mirrored by the S&P 500 which also gained 15%, leaving it up 17% for the year.

The powerful rally continued as the economy showed signs of stabilization and corporate profits came in above expectations, primarily due to cost cutting. Concerns of high unemployment and high consumer debt were outweighed by a stabilizing housing market and corporate profit gains.

Global stocks

Stock market indexes in the U.K, Germany and France all finished much higher in the 3rd quarter. The U.K. FTSE 100 gained, 21%, Germany’s DAX added 18% and France’s CAC-40 was up 21%. China’s

Shanghai Composite Index was one of the few that fell in the quarter, down 6.1%, but it had been up over 60% in the first half of 2009.

Too much ‘financial medicine’ and inflation

Just like medications with warning labels, the risk of too much government stimulus and low interest rates could cause inflationary pressures. Inflation can erode purchasing power and result in higher prices for goods and services.

Depending on your goals, we typically recommend TIPS to help offset the potential risks of inflation. TIPS are U.S. Treasury Inflation Protected Securities and are designed to track changes in the CPI (Consumer Price Index). If the CPI rises, the securities’ principal, or face value, increases.

We continue to see opportunities

We believe that the worst is over and continue to invest in sectors with upside potential. We also believe that the continuing efforts of the U.S. Government and the U.S. Federal Reserve to stimulate the economy are doing their intended work. While a double dip recession is certainly possible, we think it’s not likely.

We are here for you

We look forward to continue serving your investment management and financial planning needs. Please contact us if you have any questions, if you’d like to schedule an account review or learn more about our comprehensive financial planning services.

Sincerely yours

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