

Review for 2007 and 2008 Future Outlook

Are we there yet?

Investing in financial markets in 2007 was a little like a long car ride with young children. The question that gets repeatedly asked is: 'are we there yet?' Taking a toll on the markets were housing and mortgage woes, credit market concerns and higher oil prices.

Despite all of this, the Dow Jones Industrial Average finished 2007 up 6.4% for the year and the S&P 500 rose 3.5%. Technology stocks did especially well with the NASDAQ Composite up 9.8%.

Santa Claus skipped over Wall Street

Investors have become accustomed to a 4th quarter gain known as 'the Santa Claus rally'. For the Dow Jones Industrials, this was the first time in 10 years that the popular stock market measure did not rise in the 4th quarter. For the S&P 500 it was the first time in seven years without a similar boost.

The 'R' word

Heading into 2008, investors started to hear a word that has not been mentioned for quite some time: Recession. Recent data has indicated the possibility of an up tick in inflation fueled by higher oil and commodity prices. There were also signs that the resilient U.S. consumer was tightening up and spending less.

It's important to note that we have witnessed virtually 5 years of uninterrupted growth. The longer this growth continues it then becomes more likely a slowdown will take place. Despite the risk of a slowdown, there are still many reasons to be optimistic and there will always be opportunities that we constantly strive to identify.

The good news is...

In 2008, The U.S. Federal Reserve stands ready to cut rates if needed. The hope is that a combination of Fed rate cuts and overseas growth will keep big multinational companies expanding. We believe this scenario will benefit larger companies over smaller ones and many of our portfolios are heavily weighted to large cap equities.

Corporate bonds suffer while U.S. Treasuries rally

The downturn in the subprime mortgage market created ripple effects for many investors. Large banks and Wall Street firms took billions in write offs and the credit crunch that followed created headaches for other financial institutions and lenders.

The mortgage bond crunch of 2007 helped the Treasury markets, which benefited from investors seeking a safe haven. Prices rose on the benchmark 10-year Treasury note and yields finished 2007 at 4.03%, down from 4.708% a year earlier. Needless to say lower rates have a beneficial impact on economic growth.

Oil, grains and gold

The rising cost of oil and crop based commodities weighed on investor sentiment in the 4th quarter. The concern is that inflation will reignite after a long hiatus. As oil prices rise it creates demand for renewable fuels made from crops. Stronger demand for crops lifts grain prices and in turn, livestock prices rise, because animals feed on grains.

This cycle of price increases creates inflationary concerns which in turn cause gold prices to rise. We believe that inflation pressures will increase in 2008, but not enough to prevent the Federal Reserve from lowering interest rates again, if needed.

Global markets continue to rise

The Dow Jones World Stock Index, excluding the U.S., rose nearly 12% in 2007. The hottest performers were the emerging markets of Brazil, India, Turkey and Indonesia. China was again the big standout with the Shanghai Composite Index nearly doubling in value.

Many of our portfolios have some level of international exposure, but emerging markets play a limited role. After rising for five years, we believe that many of these markets are becoming more speculative and they are no longer a bargain.

New Years resolution: Have a plan!

In 2008 one thing bulls and bears can all agree on is that markets will continue to be more volatile. The start of the New Year is the perfect time to set resolutions for your everyday life – and that includes your finances.

Now is the time to start fresh to address your financial concerns and questions about your long term goals. Are you concerned about the rising cost of education, having the proper investments to maximize growth, having enough for retirement, or how to create a budget? – we can help get you there.

We are here for you

Our comprehensive financial planning services can assist you in addressing all of your financial concerns. An initial consultation is always offered at no charge.

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 of your account.