



Quarterly Investment Commentary April, 2010

The last two years of history serve as a vivid demonstration of the uncertainty and volatility which markets the economy produce. Less than a year ago there was a lot of talk about a new Great Depression. Prices of all asset classes, except Treasuries, were collapsing. A full range of economic woes made it difficult to imagine what engine might be capable of pulling the economy out of its nosedive. From the highs reached in 2007 to the bottom of the market in March 2009 the stock market fell approximately 55%.

Since then, the market has bounce back dramatically. The Dow Jones Industrial Average has risen over 60% since the low in March 2009.

That's a lot of change in value over a short period of time!

An important question to consider is this: Given that the markets can be expected to perform with uncertainty and extreme volatility, what is a prudent approach to investing to meet your goals?

This is the starting point to our approach to helping clients navigate the investment markets.

Today's Market and Economic Perspective

The markets tend to move in advance of the economic news, and this recovery is not an exception. Markets have staged an outstanding resurgence over a very short period of time.

The markets reflect a general sense of relief that things are not getting worse, and many companies are showing positive earnings.

The news regarding the economy is generally upbeat but less exciting. While the economy continues to show signs of a steady rebound, there are still a lot of uncertainties that are not resolved. Initial jobless claims began to decline at the end of the quarter, but the unemployment rate remained high at 9.7%, and the housing market continues to suffer.

Economic consensus regarding GDP (gross domestic product) has been revised upward in more recent periods for the U.S. and Canada. European economies are under stress, with Greece taking center stage. We can expect more to come on this front.

Moreover, world governments must navigate an exit from the extraordinary fiscal stimulus, extremely low interest rates, and high levels of government debt which came into play to rescue the economy from the meltdown which started in 2008.

The market recovery has been fast and furious, but it will take more advances to regain the value lost in the downturn. An occasionally forgotten piece of math in reporting investment results is that a 50% decline requires a 100% increase just to break even. For example, if you invested \$100 and lost 50%, you would have only a \$50 balance at the low point. From there it would require a 100% increase to be back at break even.

Final Thoughts

Most sophisticated investors recognize that markets are unpredictable in the short run, but become less surprising over the long term. A key principle to keep in mind is that the risk of market volatility can be greatly reduced over time. Markets are likely to produce years when results are great, and years when results are poor. The return for a given investment portfolio will however tend to approximate an average return over many years.

How you build your investment strategy given this factor is key.

Part of a well crafted solution is to start with a strategy built around your goals (which define how much money is needed and when). For example, if you are in retirement and need money to meet your next two years of living expenses, the assets earmarked for that goal should be held in relatively risk free assets.

On the other hand, if you are investing toward goals further into the future (i.e money needed in ten years), you are likely to benefit by participating in the market despite the short term ups and downs which can be expected. You have more time for recovery in the event of a downturn.

Historically, the markets have produced favorable results for those who apply a disciplined approach, follow time proven principles, and stay aligned with a strategy that centers on your goals. Conversely, the markets can be very unforgiving to those who do not avoid the fundamental errors common among individual investors.

Our goal is to help you have confidence in your investment strategies. We maintain strict focus on your critical goals in all market conditions.

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