

Mr. Market Sends Cheer: Will The Good Times Last?

July 1, 2009

With the first half of 2009 under the belt, it seems happy times are here again for stock investors. The quarter just ended marks the best quarter for stock investing in over a decade. From the market's low in March, stocks have mounted an impressive comeback. The Dow Jones Industrial Average is up over 1,700 points since its low, or almost 27%.

While earning 27% certainly doesn't hurt, the fact remains there is a long way to go until breakeven. The Dow remains over 5,600 points below its most recent bull-market high in October '07, or -40%. To add insult to injury, the Dow is down over 1,800 points (-17%) since exactly 10 years ago. Yes, the rumor of a lost decade in stock investing is true.

Therefore, in two paragraphs we have managed to summarize the conundrum of all professional money managers and individual stock investors: the past is ugly; the present is pretty; what does the future look like?

Will The Current Bull Last?

In our humble opinion, no. Acknowledging our complete inability to predict the future, we do know that emotions have turned positive, far too quickly for our taste. While a bounce in stocks is always expected after a crash, we see no tangible evidence that supports the market's continued climb.

The media is clearly showing a bias towards a more positive note, supporting the argument that the worst is over; however, we all know that can change at the turn of a dime. In March of this year, the markets were dropping with no end in sight and the media was letting us know it, 24/7. Now, the market is up and the media tells us things are good, that the danger is behind us, that "green shoots" of positive economic growth are already showing.

We do not subscribe to the media's agenda, or the government's, either when it is doom and gloom or when everything is coming up roses. Yes, in some economic data, there are signs that the tailspin has slowed. Unlike others, we do not see this as the signal to pile back into stocks. We believe there is more economic pain to follow. Our continuous analysis of both U.S. and Connecticut economic data leaves us feeling the glass is half-empty.

Of course, our ability to foretell the future is about equal to the ability of our two dogs. Guesses, even educated ones, are still guesses and will remain that way, whether they are proved true or not in the end. After all, the insider definition of a market analyst is an expert who will know tomorrow why the things he predicted yesterday didn't happen today!

Dealing with Uncertainty

So how does one deal with these confusing times in their investment portfolios? Clearly, we believe it is not a time to load up on stocks. However, we do not believe those holding stocks should sell out or those considering buying stocks should not invest. We believe taking a conservative and measured approach is the more prudent action.

Short-term goals should be funded with short-term instruments. Therefore, if you need to pay for expenses over the next few years, this money should be in bank accounts, CDs, money markets, or other liquid investments. The objective is not return on your capital but return of your capital.

Long-term goals require a bit more of an in-depth answer. Knowing that the times we are in are historic with no known equivalent, it seems prudent to hedge all investments. A long-term portfolio of stocks should also include short-term bonds, commodities, precious metals, and perhaps real estate (depending on your personal situation).

We do not believe that asset allocation is dead nor that buy and hold investing is dead. We do believe that the some of the instruments we invest in should be different from those of the past.

A Note about FFA

If you have visited our website recently, you may have seen our notice that we have closed our practice to new clients. After almost four years of building FFA, we have hit a critical mass of clients who we feel we can support up to our standards. If you have a special friend or family member that needs help, please contact us and we will help direct you as best as possible.

In the meanwhile, we are continuing our focus on helping the community at large understand the importance of personal finance. In that tenor, we are launching our first “Money Skills Boot Camp for Teens”, a four-hour workshop aimed at teaching high schoolers the basics of responsible personal money management. Clearly this information is not being taught in our schools. For more information, please visit our website.

As always, we are grateful for your trust and confidence as we continue through these historic times.

Best Regards,

Berthann & Craig