

Market Review and Outlook—June 10, 2010

A Greek Tragedy. While Greece represents a small amount of global economic activity, there are other European countries in somewhat similar straits, and while there is no real question whether the European Union can withstand this challenge, there are questions whether it can hold up should other countries (Portugal, Italy, Spain, Ireland) find themselves in similar crises. There are parallels to 2008—the US handled the Bear Stearns problem, and even the Fannie Mae problem, but AIG and Lehman Brothers were more than our system could handle without herculean efforts and turmoil.

When It Rains ... If that wasn't enough, the BP Deepwater Horizon drilling platform in the Gulf of Mexico exploded on April 20th, eleven lives were lost, and oil has been gushing into the Gulf ever since, already more oil has spilled than was lost in the Exxon Valdez catastrophe. If bad news comes in three's, ...

The stock markets continued to rise in March, and US stocks rose in April. However, the debt crisis in Greece hit foreign stocks in April and brought losses of 8 to 10% to global stocks in May. Partially as a result of the Greece and BP issues, US and global economic activity, while still growing, has slowed. In May, foreign stocks went from being up 1/2% year-to-date to down more than 10%. That's quite a harsh one-month swing.

The silver lining here is that while the global recovery should be weaker than we expected three months ago, it should last longer. Interest rates should take longer to rise (a mixed blessing—it will take longer to earn reasonable interest rates on CDs and money markets, but investors have more time to get rid of long-term bonds before their prices drop painfully as rates rise). I am less concerned with the pace of the recovery than the direction. I would prefer eight years of 2% real economic growth to four years of 4% growth. Stronger growth leads to bubbles and poor decisions.

What to Do? Don't let a month's or quarter's investment performance alter your commitment to your long-term investment plan. Your plan should include enough cash/bonds to enable you to wait out the worst of economic and market storms (meeting cash needs without having to sell any stocks at distressed prices), while maintaining enough in stocks to provide the growth that is necessary to help you keep up with the rising cost of living, and to meet your other financial goals. I favor avoiding long-term bonds and favoring short-term ones. I have begun using 'bank-loan' bond funds, which own bonds/loans with adjustable interest rates. These should hold up as rates rise. As a value investor, I am attracted to opportunities that the weak provide—at this time, large foreign and large US stocks appear weak.

Category	3 Months	Past Year	3-Yr Avg	5-Yr Avg	10-Yr Avg
Taxable Money Market	+0.01%	+0.07%	+1.74%	+2.64%	+2.41%
Intermediate Term Bond	+1.62%	+12.98%	+5.37%	+4.34%	+5.83%
Intermediate Muni Bond	+1.10%	+7.48%	+4.58%	+3.74%	+4.88%
Large-Cap Core Stock	-1.38%	+19.48%	-8.79%	+0.32%	-0.05%
Mid-Cap Core	+2.39%	+29.80%	-7.36%	+2.12%	+4.10%
Small-Cap Core	+4.47%	+32.72%	-7.18%	+2.32%	+6.44%
International Stock	-6.41%	+6.75%	-12.55%	+1.70%	+0.18%
Real Estate	+10.61%	+55.32%	-11.22%	+1.15%	+9.87%
Natural Resources	-4.61%	+8.91%	-6.62%	+8.98%	+11.75%
Technology	+2.05%	+28.54%	-2.40%	+3.87%	-6.02%
Moderate Allocation	-0.41%	+16.30%	-4.08%	+2.01%	+2.32%

The data in this table comes from Morningstar. Information herein should not be construed by any consumer and/or prospective client as a solicitation to effect, or attempt to effect transactions in securities, or the rendering of personalized investment advice for compensation.