Market Review and Outlook—June 1, 2012

Investors Gripped by Fear, Again Investors did an abrupt about-face in the past three months, with US stocks falling more in May than they had gained in March and April. Foreign stocks began their backslide in April. While the US economy has continued its fairly solid yet modest recovery, it faces a 'fiscal cliff' at year-end, if Congress continues to do nothing. Yes foreign concerns have overwhelmed investors. These concerns are three-fold: Europe, China, and emerging markets.

Triple Troubles Eurozone leaders continue to fail to convince investors that they are on top of the situation, with recent elections in Greece and France displaying citizen resistance, a Greek exit from the EuroZone becoming much more likely, and with heightened concerns recently spreading from Greece to Spain. Chinese leaders have been working hard to 'turn down the heat' in its economy, which last year was growing faster than desired. There is always a risk that they will 'overshoot' and bring China into a recession, and their job is being made more difficult with the European slowdown. The economic slowdowns across the globe have led to sell-offs in commodities, including energy. Many emerging markets are highly dependent on sales of their natural resources, so falling energy prices hurt them.

Eeyore Investors The grey donkey from Winnie-the-Pooh fame is described as 'pessimistic, gloomy, and depressed.' We all have our Eeyore moments, however this passes. Most of today's investors are reacting to all news in an all-Eeyore, all-the time fashion. Why are ten-year Treasuries so expensive? Because today's investors prefer earning +1.75% annually from a Treasury to earning +2.13% annually in (growing) dividends from the largest US companies, plus the likelihood of price growth. Investors are buying 10-year inflation-linked Treasuries yielding 0.62% annually **less** than inflation, guaranteed! Does this make any sense?

Today's Eeyore investors are the polar opposite to the Irrational Exuberant investors of the 1990s. While greed-crazed investors continued to rule the markets for more than three years after Greenspan's Irrational Exhuberance speech, fear-crazed investors may well rule our markets for a few more years. Yet by refusing to be an Eeyore, you can avoid 'the madness of crowds,' and instead stick to an investment plan that emphasizes value and balance, a plan that is designed to handle both tailwinds and headwinds (including Eeyore investors).

In today's fear-driven environment, resist the temptation to buy what's popular (Treasuries, Facebook shares), and instead stick to basics, such as **global diversification**. Even though there are major challenges facing foreign economies, much (and perhaps all) of this is reflected in today's depressed foreign stock prices, which are down 23% in the past year. So is Europe more messed up or less than investors fear? What do you think?

Category	3 Months	Past Year	3-Year Avg	5 Year Avg	10-Yr Avg
Fidelity Cash Reserves	+0.01%	+0.02%	+0.08%	+1.29%	+1.90%
Intermediate Term Bond	+1.16%	+5.62%	+8.66%	+6.08%	+5.31%
Intermediate Muni Bond	+0.85%	+8.25%	+6.44%	+4.99%	+4.41%
Large-Cap Blend Stock	-5.18%	-4.43%	+12.74%	-1.96%	+3.51%
Mid-Cap Blend	-6.56%	-9.58%	+14.91%	-1.59%	+5.69%
Small-Cap Blend	-6.37%	-8.91%	+16.10%	-1.37%	+5.78%
Foreign Large Blend Stock	-11.85%	-19.79%	+3.98%	-6.68%	+3.72%
Natural Resources	-17.10%	-23.71%	+4.83%	-3.24%	+9.33%
Real Estate	+2.99%	+3.04%	+28.19%	-1.03%	+9.17%
Technology	-7.93%	-8.24%	+15.39%	+2.19%	+5.51%
Moderate Allocation	-3.47%	-2.89%	+10.50%	+0.68%	+4.49%

The data in this table comes from Morningstar, and is as of May 31, 2012
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