Market Review and Outlook—September 5, 2012

Ignoring the Media Pays Off The market news this year has been depressing—continued high unemployment, a fiscal cliff coming in the US at year-end, an economic slowdown in China, tensions with Iran, and unsolvable fiscal problems in Europe. What has the market done during this awful period? The average 'moderate allocation' mutual fund is up 8.6% year-to-date.

Short Term, It's Been Great Look at the 3 Months column below. In the past three months, investors couldn't lose. Bonds returned 1-2%, while stocks rose 5-9%. When we look at over forty types of mutual funds, only two have lost money so far this year—precious metals (gold) which are down 7.4%, and Latin America stock funds, down 0.1%. Even foreign stocks are up year-to-date, by 7.7%. I have missed the media covering these results.

Long Term, You Couldn't Lose Now look at the 10-Yr Avg column below. In the past decade, consistent investors couldn't lose. Bonds gained about 4-5% annually, while stocks rose about 6-8% annually. Those columns mask the actual path, which was EXTREMELY bumpy, however 'buy and hold' investors were rewarded appropriately over the past decade. This has been anything but a lost decade, unless you stuck to cash, or unless you jumped in and out of stocks.

Storm Clouds Remain The troubles listed in the first section are real, and their solutions are not readily apparent. However those are the reasons that stocks are priced low today—those reasons describe yesterday's stock performance. Today's investors should focus on tomorrow's performance, and this is hinged to our future economic path, and specifically whether it is better or worse than current expectations. As current expectations are gloomy, it is far more likely that we will outperform in the future.

Valuations Matter Bonds absolutely will disappoint investors in the future. At some point in the next five years, bond investors will become fed up with losing 2% annually to inflation. Bond prices are at peak levels, and the best way to lose money is to buy at peaks. Having doubled in the past four or so years, stock prices are not cheap, but they are far from expensive.

Therefore We recommend sticking to long-term allocation targets, and regularly rebalancing. At this time we are taking some profits from our stocks, but we remain committed to 'stocks for the long run,' global investing, and regular rebalancing. This disciplined approach has been the time-tested path to higher, steadier risk-adjusted long-term returns.

Category	3 Months	Past Year	3-Year Avg	5 Year Avg	10-Yr Avg
Fidelity Cash Reserves	+0.00%	+0.02%	+0.05%	+1.04%	+1.86%
Intermediate Term Bond	+2.28%	+6.82%	+7.46%	+6.32%	+5.27%
Intermediate Muni Bond	+1.28%	+7.07%	+6.12%	+5.27%	+4.23%
Large-Cap Blend Stock	+7.42%	+14.13%	+11.45%	+0.24%	+5.90%
Mid-Cap Blend	+5.92%	+10.51%	+12.54%	+0.90%	+8.08%
Small-Cap Blend	+6.27%	+11.86%	+13.52%	+1.25%	+8.39%
Foreign Large Blend Stock	+9.24%	-0.56%	+3.26%	-4.61%	+6.20%
Natural Resources	+8.42%	-7.39%	+6.86%	-1.33%	+12.15%
Real Estate	+7.20%	+19.61%	+22.95%	+2.79%	+10.15%
Technology	+6.75%	+12.71%	+13.36%	+3.15%	+9.36%
Moderate Allocation	+5.38%	+9.35%	+9.32%	+2.14%	+5.97%

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