
Today's Truth - The end of the Third Quarter

The third quarter just ended and let us be serious - it stunk.

In fact, until the turnaround on Tuesday, October 4, the US markets all flirted in bear market range with numbers as of 3:00 PM about 20% lower than April's high. This of course is nothing compared to the 57% decline in the last bear market that ended in March 2009. Since the Congressional circus left in July without cleaning out the elephant droppings, we have added Europe to the mix and discovered that the financial turmoil of 2009 is far from solved.

Since I have been in this business, most money managers have said that "The most dangerous phrase in the English language is this time it's different." We are now thinking that maybe this time it is really different.

It may also be that today's most dangerous sentiment is the complacency born of "It's always the same." I am no longer sure of that. We have had recessions before and we have had big deficits for decades. What is different now is the tectonic effects of major global demographic shifts, along with the geopolitical stress that goes hand-in-hand with this issue.

As 10,000 U.S. Baby Boomers reach 65 every day, and add the same demographic bubble across the developed world, we sit with a simple and inescapable problem. The social safety net was never designed for so few workers to guarantee the enormous health and retirement benefits that have been promised across several generations.

Worldwide, we see unsustainable contractual obligations: from overwhelmed debtor nations (The PIGS - Portugal, Ireland, Greece, and Spain) to US cities and states with underfunded and perhaps never-to-be-funded pension and healthcare liabilities.

Add to all of this a Government that continues to behave like circus clowns, distracting the crowd from the business that our government must do, making distracting noises and scattering confetti of ideology couched in dramatically silly beliefs rather than addressing major problems.

This quarterly report marks a major shift in tone for M.D. Kresh and Creative Wealth Management, LLC. In the face of overwhelming demographic evidence, our outlook has changed. This does not mean that we are declaring war on equities - in fact, today's atmosphere of financial fear has created an ample shopping list of solid businesses with healthy dividends that are selling for far below their intrinsic value. However as advisors, we recognize that there is a need to be observers of financial panics, not fully engaged participants. We have large positions in cash, short term bonds, and other non-correlated assets. We are continuing to adjust our portfolios, as we are leaning even more on controlling risk than reaching for return.

We do not see a simple end to the economic problems in Greece, and it is becoming clear that the economic pressure on the world banking sector will not improve anytime soon. It is also becoming clear that public sentiment will not support another massive rescue package for bank shareholders and bond holders.

In the near term we see more risk in the unwinding of the mountain of debt created during the credit boom over the last twenty years. So going forward, we are acting out of an abundance of caution. We prefer to forfeit some possible profit by reducing risk now than deal directly with the clear volatility that may not disappear any time soon. However, we also must be completely aware that it is the periods of gloom and fear that ultimately create the greatest investment values. There are many reasons to be optimistic about many of our domestic positions. Our economy is still expanding, albeit slowly. Slow growth is clearly better than no growth. And with oil prices falling, inflation may still stay low for the next few months. To make sure that we can all sleep at night, we must be diligent and remember that greed and fear are our enemies and prudence is never the wrong course of action.

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Investors should understand that investing in strategies that are non-correlated to the stock and bond markets are not without risk. There can be no assurance that alternative investments will be profitable and will even outperform asset classes correlated to the stock and bond markets.