FIRST QUARTER 2010

If

Rudyard Kipling

If you can keep your head when all about you
Are losing theirs and blaming it on you,

…….

Yours is the Earth and everything that's in it,
And - which is more - you'll be a Man, my son!

Rudyard Kipling wrote this poem in 1909 during very different times, but the sentiment is especially appropriate today. It has been about thirteen months since the market lows of last March; lows that put the Dow and S&P 500 to levels not seen since 1997[1]. Those of you who kept your heads, "when all about you are losing theirs…" even though we were in the worst recession since the Great Depression and the worst market crash since the 1930's[2], did so because you know that markets often over react.

We know that when a recovery comes, it can be strong. We are now looking back on a market recovery that has shown a strong rebound lasting for more than a year. Although that recovery has not been completely reflected in the economy, it has rewarded investors who kept to their plan. Those who bailed and went to cash may never recover. How many years at 1% will it take to make the equivalent return the markets have delivered over the last twelve months?

Does the market's recovery tell us the recession is over? It probably does not. There are still major issues to be addressed. Unemployment continues to be a problem, and commercial real estate may yet become an even bigger problem. Elizabeth Warren, Chair of the TARP Congressional Oversight Panel, told CNBC on March 29th that many commercial mortgages may also be under water, i.e., the amount due on the loan is greater than the value of the property. Looming large on the horizon is the after-effect of removing governmental support that is currently keeping interest rates artificially low, and what will happen when rising interest rates cause bond values to go down.

There are clearly other issues that need to be addressed. The Federal Reserve is trying to prevent inflation from rearing its ugly head without snapping, much like walking a tight rope without a net: exciting to watch but full of risk. Just a little wobble could lead the economy crashing down again. Unfortunately, now we must add the additional complications relating to the federal government's suit against Goldman Sachs. This effect on the market and our economic recovery is yet another unknown.

It is not yet time to blow the "all clear" horn. But where do we go from here?

The lesson reinforced time and time again is any attempt to time the markets is a fool's errand. We must also recognize investing is not as simple as it was thirty years ago. We must constantly look for ways to improve how we diversify our investments, and we must also realize to thrive in these volatile times, we need to be even more flexible in how we address what our investments can really do for us.

I have spoken before about spending in down markets; it is clearer now that we need to be even more creative to avoid liquidations at inappropriate times. Those who sold in March of 2009 were punished twice: once for selling and the second time for missing the recovery. More than ever, we need to update our planning, reevaluate our cash flow needs and have an efficient handle of the risks verses returns of each of our portfolios. In light of this, I have updated our planning software and recommend everyone take advantage of aligning their plans with the "new normal" of the world's rapidly changing and potentially dangerous economy.

If you have any questions or would like to learn more about our new planning software, please call us to set up an appointment.

Michael D. Kresh, CFP®
President

[1] *CNBC* March 2010
[2] *CNBC* March 30, 2010

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