

2009 Year End Commentary and 2010 Outlook

A long New Years weekend gives us lots of time to think and reflect about both the past and future. As I finish my second bowl of black-eyed peas (an undeniable Southern tradition for good luck for the coming year), I offer the following personal review of the events we've experienced, and the outlook for 2k10. I've also compiled some New Years resolutions; one's that will undoubtedly lead to greater wealth and prosperity if we can simply keep them.

As 2009 started off, no one could have envisioned that we would experience the rollercoaster of events the year delivered. A historic changing of the guard at the White House, a global economic recession under full steam, and a narrowly avoided financial meltdown of unprecedented amplitude all conspired to confuse, confound, and divide a weary and fearful population. Indeed, even the most stalwart optimists found little support for their "glass half full" protestations. It seemed the shoes would never stop dropping.

It would have been so easy for any of us to run for the sidelines in our portfolios and wait for better times. I mean, who could have blamed us? With markets off as much as 25% through March of 2009, one would seem perfectly justified in parking one's dollars in low or no-yielding bank accounts (at the banks left standing) or brokerage money markets (if we could figure out who owned which brokerage firm today.) "When things get better," we'd tell ourselves, "I'll get back in." Well, we didn't follow that advice. We exercised excellent investor behavior, and we were rewarded for it. While our portfolios may not have fully recovered from the 2007-2008 declines just yet, we're a far sight closer to full recovery than those poor unguided investors who are still sitting on the sidelines wondering "Is it too late? Have I missed it?"

In looking over my 2008 Commentary (which is still available on the website), I wrote two things to you in January of 2009 that I hope were at least partly responsible for your excellent behavior. Here they are for your review:

In every past instance of recession, the stock and bond markets have recovered to new highs. And here's the surprising news: Typically, the stock market begins to recover and advance before a recession is over. The problem is, nobody rings a bell at the bottom and says, "Come on in, the water's fine." This is the reason for staying invested. In addition, the recoveries tend to be fairly robust when the declines have been significant. The current situation certainly qualifies. So, if we're 13 months into the recession, and the average recession lasts 13 months, and the stock market historically leads out of a recession before

it's over, history might suggest there's reason to hope that a recovery for our portfolios might be on the horizon.

“The key determinant of investment results over time isn't returns, its investor behavior.”

This last little nugget of wisdom has once again proven a money maker for those who had the foresight not only to stay invested, but to invest more at a time when it seemed that only a lunatic would do so. Crazy like a fox, I'd say. For those of you who continued to make monthly or bi-weekly contributions to your retirement plans throughout 2009, congratulations. Those deposits made in March are probably up 30, 40, or maybe even 50%, depending upon your choices. Well done. Keep up the good work.

So, what about 2010? What can we expect in the coming year? Should we listen to the prognosticators on TV and in the newsprint? Well, let's look at their track record, shall we? If you read the financial magazines in September of 2008, right before the beginning of the crisis, you would see that no one had a clue that we were facing a meltdown of such proportion. Most all the “experts” were caught flat footed. Closer to home, in January of 2009 (about the same time I was penning the previous pearls of wisdom), Kiplinger magazine identified the people who had been most right in their 2008 predictions and asked them what they thought was going to happen in 2009. Not a one of them predicted what actually happened; a dramatic rise in stock prices, a sharp rise in the dollar, and an end to the economic recession. So much for expert forecasts.

To be sure, the central themes for 2010 will gravitate to a persistent and stubborn unemployment rate, the massive debt load the government has manufactured, and the continuing troubles of the dollar as the dominant world currency. (The pessimists will continue to look for other things to worry about as well.) The jobless rate is likely to remain high for some time, as not nearly enough jobs are being created each month to soak up the current and future employable ranks. (The stimulus plans of both the Bush and Obama administrations have been dismal failures when it comes to job creation. While productivity continues to increase, who really cares when your brother-in-law can't find work?) Things will get better here, but slowly.

I continue to be most concerned with regard to the current debt load and our record deficit. I'm not economist (thank goodness), but when your total outstanding debt as a country equals your Gross Domestic Production (which ours could do in a year or two without some serious action), not-so-good stuff starts to happen. The good news here is that the government has started to quietly pull some of the liquidity out of the system and will need to do so at an accelerated pace to avoid serious long term problems with the dollars value. While no one wants to dent the recovery with less liquidity, the dollar (and all of us) will be better off sooner if the government will step up the pool draining process. And while I'm on the soapbox, here's a memo to pass along to your Congressperson or other elected official who may be preening and taking personal credit for the miracle of our economic recovery: The economy heals itself, as it has always done. Neither the prior or the current administration had much to do with it, other than piling more debt upon our grandchildren through misguided stimulus packages that were

largely ineffective. The recovery can be credited to the free market system, and not the government's interference with it. (Sorry – that was editorial. My apologies.)

Despite these hurdles, the economy is forecast to grow at a 2%-4% rate for the year, depending upon whose tea leaves you consult. Pretty good news considering all things. And, as we've seen in the recent past, the performance of our stock and bond markets often has little relationship to the *current* economic circumstances. At the end of the day, the markets are a reflection of *future expectations*. So, it would seem that in the last 9 months of 2009, the markets were saying, "Things aren't nearly as bad as they seem, and things will get better sooner than many people are predicting." What the markets tell us during 2010 will say a lot about what we can expect over the near-to- intermediate investing term.

It is useful to note that at current levels, markets are still about 25% below their all time highs of 2007. It is further useful to note that in each past recession since, well, the beginning of time, markets have ultimately advanced to new highs. (I just report these facts, I don't make them up.) So, here are a few New Year's resolutions for us all to abide by in the interest of increased wealth for our families.

- I will continue to view all predictions of short term market direction by supposed "experts" with a jaundiced eye. Their track records generally stink and destroy more wealth than they create.
- I will continue to successfully invest by embracing the three main disciplines that helped me rebuild my balance sheet in 2009: Diversify, invest in quality, and exercise patience.
- I will leave the burying of savings in coffee cans, the purchase of fortified mountain cabins, the stockpiling of beans and rice, and other statements showing a lack of faith in the future of this country to others. Things *will* get better, and history is on my side, not theirs.
- I will exercise diligence in ensuring that my portfolio is invested in accordance with my objectives and my tolerance for risk.

As we usher in a New Year, I want to thank you for your continued confidence and trust in us as your financial advisor. We commit to continue our efforts to build and preserve your wealth...for you and for future generations. See you next quarter...

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