



Friday, October 2, 2009

Curves Ahead?

The long and mostly uninterrupted rally took a breather this week as investors wondered if the economic recovery might be losing steam. Some wonder if the market might be ahead of itself, given the anemic nature of the recovery. But it is not news that the recovery is going to be bumpy and uneven. The perennial doomsayers continue to harp on the bad and the perennial optimists harp on the good. Today, we'll simply report the week's economic news and let you decide.

Economic news reprinted from Bloomberg:

- **Consumer Confidence** did not improve in September according to the Conference Board's index that fell back to 53.1 from 54.5. In the current assessment, many more are saying that jobs are hard to get, 47.0% vs. 44.3%.
- **ICSC-Goldman's** tally showed that sales improved in the Sept. 26 week rising 0.1% for a 0.9% year-on-year gain that compares with plus 0.6% the week before. The report said traffic is improving. Redbook has been reporting improvement through the month in what would be major economic news should September ex-auto ex-gasoline sales prove as strong as those in August.
- **Second quarter GDP** clearly shows the economy at recession bottom. More recent data argues that the recession is technically over. The second revision to the report of second quarter GDP nudges up the estimate to an annualized 0.7% decrease from the previous estimate of a 1.0% decline. The market forecast was for a 1.2% decrease.
- **The ISM's index points to slow, steady expansion in the manufacturing sector.** At 52.6, it's little changed from August's 52.9 and is still over 50 indicating that more purchasers are reporting expansion rather than contraction.
- **Personal Income** came in a little above expectations.
- **Manufacturing activity** first moved higher in June then improved further in July but then dipped back in August. Factory orders for August fell 0.8% vs. a 1.4% rise in July (1.3% first reported) and vs. a 0.9% rise in June.

Based on this latest news, which camp do you fall into? Does it really matter? We hear so often; take the long view when investing. We accept as dogma that the stock market is our best choice for retirement savings. Indeed its historical average yield of more than 11% is more than sufficient to fund our financial goals. We are all believers when its path is straight and smooth. As we become veterans in the game, we can even take the occasional bump or twist, as long as we can see that the road ahead is relatively straight and smooth. Our road map (or plan to stay invested) is our best friend.

But every so often along our journey we encounter road signs that warn of impending dangers such as: *Unemployment Rate Rising to 9.8%, Durable Goods Orders Disappoint, or Commercial Loan Default Rate Rising.* Wise and seasoned investors expect and plan for hazards along the way. They may not know what lurks around the next corner, but they prepare for it and can

make the necessary adjustments to get them to their destination. But far too many investors allow the curves and bumps to dictate to them what steps to take. They very often pull off the road for a season, or for good.

Take a look at the map below. Consider Little Switzerland as our destination for *financial independence*. Notice that there are several routes into Little Switzerland; some considerably more direct than others. Routes 1002 from the west and 226 from the east offer a considerably more desirable approach than the snaky 226 from the south. Unfortunately, we cannot simply place ourselves on a road of our choosing any more than we can time the markets ahead. The good news is that each road reaches our destination – Little Switzerland.

But note this: every road has its perils and hazards which may not be apparent at first glance. For instance, route 1002 presents some rather abrupt curves along the way. A pedal-to-the-metal driver might well veer off the road in one of those surprise curves (those trying to beat the market). Another, taking a super cautions approach (the all CD investor) might so lengthen her journey that that she will miss the best part of the Fall Festival in Little Switzerland.

The perils are obvious on the southerly approach of 226. Its wavy, winding path implies slow and hazardous going. But, with the right adjustments for speed along the way, the trip can be beautiful. In fact, it is considerably more scenic than the other two, if you are not in a hurry.



The economy, corporate earnings, global conflicts, fiscal deficits, and rising taxes are all very important to us as involved citizens. They all have an impact on our investments, in the short-run. But remember, it is long-term returns that we seek from the market. If you truly believe that by timing your market ins and outs that you can get to your destination faster, expect the curves to be merciless.

Our conviction is that the capital markets alone provide sufficient returns for meeting goals. Through constant oversight and making adjustments when needed, we strive to keep confidence high for our clients that they will reach their financial goals, while minimizing their sacrifice (enjoying the ride) along the way. Happy Trails!