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What a Difference a Year Can Make

Dear Client,

Do you remember the uncertainty and anxiety we faced as investors just one year ago? The market had suffered a decline of 57% from October 19th, 2007 through March 9th, 2009. This was the largest decline, as measured by the S&P 500, since the 1930s. Hopefully, we will not experience another decline of this magnitude in our lifetime.

Investment advice, offered by the likes of Warren Buffet, John Templeton and Benjamin Graham, has said "it can be the most profitable to buy stocks when times appear to be the scariest". This advice has proven to be right on, once again. In the last year, the market has made an increase of more than 68% measured by the S&P 500. A year ago I was telling clients that the market may rebound in the area of 15% to 25% due to its over-sold conditions and level of fear in the overall market. This turned out to be way too conservative.

At this time it appears that the "Great Recession" is loosening its grips on the economy and financial markets. Here is the evidence:

1. The US economic recovery is two quarters old and, although widely perceived as a subpar recovery, the pace of the real GDP growth thus far is very comparable to the strongest recoveries that we have had in the last 50 years.

2. Corporate profits have out-paced expectations by wide margins in each of the last four quarters. The US leading economic indicators, such as ISM manufacturing survey, industrial production, etc., have increased almost every month since its low in March 2009. These indicators are in line with other robust recoveries that we have experienced since WWII.

3. The US is enjoying a global recovery; pushing growth of US exports to a torrid annualized pace of more than 27% since April 2009[1]. Billions of people in the emerging markets, such as India and China, are pursuing a middle-class lifestyle. Countries like these will provide opportunities for corporations (i.e. "stocks") for many years to come.

Even though we are on the road to recovery, it doesn't mean there won't be challenges ahead. There will be serious challenges including:

1. The Federal Reserve will likely be raising short term interest rates very soon. Once job gains are established for a couple of months, the character of the economic recovery should become self-sustaining. Rates will increase once the Fed believes the economy can function with higher interest rates and less economic stimulus. It is uncertain on how the economy and markets will function in a higher interest rate environment.

2. The rate of job creation will be slow, causing the unemployment rate to stay higher than normal for several years. It will take time, but the opportunities for global growth should bring unemployment rates down in the years to come.

3. Massive government spending will need to be funded. The best case scenario is that our economy grows faster than anticipated; thereby generating higher tax revenues to pay down the debt. With subpar growth, the deficits will continue to be a significant issue for generations ahead.

We are in the stages of an economic recovery. This recovery will most likely enhance stock market returns in the years ahead. Stock market returns will certainly be littered with gut wrenching corrections and pull backs. Because we are in the early stages of an economic recovery, it creates an exciting opportunity for investors who are accumulating wealth for future goals and objectives. For investors who are in the distribution phase of life, it makes sense to maintain a balanced investment strategy consisting of a mixture of fixed income and equity investments.

If you would like to discuss your specific investment strategy, don't hesitate to call or email. I look forward to assisting you with your wealth management plan in the years ahead.

Sincerely,

Mike Ovshak, CFP®

[1] Source: Wells Capital Management