

## Market Update – February 25, 2010

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Financial Focus 1903 Wright Pl., #150 Carlsbad, CA 92008 (760) 431-3040

The global marketplace is moving rapidly. Growth and change are everywhere as the world's economic needs evolve and opportunities for the right companies emerge. It's been said that investors who recognize key issues such as *Raw Materials and Resources*, constant Innovation and Transformation, the effects of Global Rebalancing and Great American Companies could be in a position to benefit the most.

Still and all, it's been a rough few weeks for the stock market with the S&P drifting downwards since hitting a bull market high in mid-January. It's a bit puzzling. According to Dr. David Kelly, CFA, Managing Director and Chief Market Strategist for J.P. Morgan Funds, "The earnings season has been extremely positive so far with five companies beating estimates for every one company falling short. Real GDP for the fourth quarter 2009 grew by an estimated 5.7% (according to the advance estimate released by the BEA), well above consensus estimates, while the unemployment rate has now fallen back to 9.7%." So why the Wall Street doom and gloom?

Perhaps worries about Greek debt, Chinese growth and its efforts to slow its booming economy have contributed to the malaise, although those factors don't appear to pose a serious threat to a U.S. economic recovery. Avoiding a boom-bust in China's economy is in everyone's interest. But keep in mind, the Chinese could be looking elsewhere to invest their fixed income dollars. Last week the government reported that foreign demand for U.S. Treasury securities fell by the largest amount on record in December with China reducing its holdings by \$34.2 billion (source USA Today). The reductions, if they continue, could force the government to make higher interest payments at a time when it is running record federal deficits. We'll want to keep a watchful eye to that.

It's no secret that the labor market remains weak today, but the trends seem to be broadly moving in the right direction. (That's not to say, however, that may not see a bit more volatility in the next few months.) Long term, however, we believe that fundamentally an improving economy should, over time, be accompanied and supported by a better job market. This may be an opportunity to consider for investors today who invest in long-term assets to take advantage of this potential.

Let's look at some of the positives:

Though the S&P was down 3.6% (total return) in January 2010, through last Friday's close (21910), the stock index is positive 3.5% for the month of February (source: BTN Research).

Aggregate earnings per share of the S&P 500 companies are projected to increase by +14% in 2010 (over its actual earnings from 2009) and then increase another +18% in 2011 (source: S&P).

The Federal Reserve had profits of \$45 billion in 2009 (to be returned to the Treasury Department), largely from interest income. An interesting fact: Chairman Ben Bernanke made \$199,700 last year with no bonus (source: Reuters).

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Consumer spending accounts for 70% of total economic activity in the USA. The size of the US economy was \$14.5 trillion as of 123109, almost three times as large as Japan, the 2<sup>nd</sup> largest economy in the world (source: Commerce Department).

At \$14.5 trillion in size, the US economy represents 24% of the global economy. We were 32% of the worldwide economy in 2001 – which means we're still a big part of the pie (source: International Monetary Fund).

We are saving more! The national personal savings rate in the USA was 4.6% as of 12312009, the highest year-end rate since 12311996. As recently as 3.31.2008, the national personal savings rate was just 1.2%. As of 1984, 25 years ago the rate was 10.4% (source: Bureau of Economic Analysis). Again, a trend in the right direction.

But not to be just another Pollyanna - we realize that creating jobs is always a slower process than destroying them. Historically, over the past 50 years, the unemployment rate has risen by about 2% per year on its way up and fallen by about 1% per year on the way down. If history is any indication and if the unemployment rate is roughly 9.5% by the end of 2010, it could be four more years, to the end of 2014, before it's back to the mid-5% range that many would regard as "full employment."

While it is true that the economy is likely to add manufacturing jobs in the decades ahead, the last two decades have seen strong growth in high-skill services as well as low-skill services. The strongest job growth has come in two broad categories: Education & Health Services and Professional & Business Services, both of which pay above average wages.

So, where are we? The outlook for jobs will likely be a mixed one but many of the above-mentioned factors indicate that the economy is on the verge of producing jobs. For the most part, they should be good jobs capable of supporting a modest consumer expansion. Though it may still take awhile, we want to suggest remembering that we are Americans, we are a resilient nation with many assets and opportunities. We leave you with the following "quote of the day" which we believe says it best:

"We are at a point right now where it doesn't make a damn whether you're a Democrat or a Republican if you've forgotten you're an American." .....Former Senator Alan K. Simpson, Republican of Wyoming commenting on Washington's inability to confront the soaring national debt.

As always, please feel free to call with any questions or concerns you may have.

Best regards,

Gloria and Barbara

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Indices are unmanaged measures of market conditions. It is not possible to invest directly into an index. Past performance is not a guarantee of future results.

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