

Market Update – May 15, 2009

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Has the storm passed or are we just in a lull? The markets have given us some brighter news of late but we think we're still facing some pretty strong head winds. Let's look at a summary of some of the recent happenings.

More joblessness, but fewer layoffs: The latest data from the Labor Department put the jobless rate at 8.9%, but the pace of layoffs declined in April. In March, the economy shed 699,000 jobs. Last month's net reduction was only 539,000 jobs. Some job bright spots: Health care jobs grew by 17,000 in April. Job gains in health care have averaged 17,000 per month thus far in 2009. Employment by the federal government rose by 66,000 over the month largely due to the hiring of temporary workers for Census 2010 work. (Source: U.S. Bureau of Labor Statistics)

A stress test summary: According to the Federal Reserve, 10 out of 19 major U.S. banks needed a bigger capital buffer, including Bank of America, Citigroup, GMAC and Wells Fargo. Stock markets soared as preliminary results of the U.S. Treasury's stress tests swept away a fog of uncertainty that prevented investors from truly knowing the condition of the nation's banks. Banks appear to need more capital, "but their losses are manageable," one analyst said. (The New York Times May 6, 2009)

The Housing Market - The Good and the Bad: For the second month in a row, the National Association of Realtors Pending Home Sales Index, which tracks sales under contract but not closed, posted a gain - an increase of 3.2% in March. The data demonstrates that "as far as the housing sector is concerned, we are getting near the bottom," said Nigel Gault, chief U.S. economist at IHS Global Insight. (Source: Yahoo!/Reuters) However about 22% of homeowners owe more than their houses are worth according to Zillow.com.

At the Gas Pump. Have you noticed it's costing more to fill 'er up these days? Rising optimism about the U.S. economy, the world's biggest energy user, drove the price of oil to more than \$56 a barrel Wednesday for the first time this year. The price for New York's benchmark futures contract peaked at \$56.07 a barrel, later settling to \$55.90 in New York trading. (Source: The Times of India, May 7, 2009)

Market Movements: As of Friday May 8th 2009, the S&P 500 was positive for the year 2.88% (but still negative over 12 months at -33.52%). Since March 9th, the index has marched from 676.53 up to 909.03. This is a welcome leap of 34.4%! The developing world markets are up over 50% over that same period (*Wall St Journal 5/11/09*). So is this level sustainable? Looking at two different headlines in the Wall Street Journal (as we write this on May 11, 2009) we see *World Regains Taste for Risk* and a few pages later *By Most Measures, Stocks No Longer Look Cheap*. As usual, the pendulum often swings too far in either direction. We believe that the markets have certainly been oversold in this downslide and perhaps have moved forward a bit too optimistically. We do know that the market often moves up ahead of the economic numbers. We are hopeful that the worst is over however, we think it unrealistic to think we won't hit some more speed bumps along the road. So what does that mean to you? The case for diversification has never been stronger!

It was very hard to follow a disciplined strategy during the last twelve months. World wide, frightened investors abandoned their diversified investment portfolios in favor of U.S. Treasuries and cash. But while cash and Treasuries have offered protection, most would agree that their yields may not be sufficient to help achieve long term investment goals. Many cash-equivalent investments were yielding less than 1%.

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So – has the storm passed? No one knows for sure but rather than focusing on the often times dramatic day-to-day changes in the markets, though the uneasiness is certainly understandable, continue to focus on longer time horizons where we believe there may be significant opportunities across a number of asset classes. Municipal bonds, corporate bonds – both investment grade and high yield bonds (for those less faint of heart) have given some really excellent and very competitive returns now. And you'll always, in our opinion, want to have a good diversified portfolio of equities – with some international exposure as well.

A Little Free Advice: We had the opportunity to hear a speaker on Internet Safety at a financial industry meeting last week. The crime rate is startling and mostly perpetuated by organized crime. According to the speaker, they are not just looking for your identity information but more importantly your passwords. So the suggestion was to keep at least three different passwords – knowing that most of us use the same one for most things. Perhaps you create one for personal issues, one for business and one for banking. Make the password complicated by using both upper and lower case as well as numbers, but easy to remember!

And we leave you with this:

*It's not true that life is one damn thing after another; it is one damn thing over and over.
Edna St. Vincent Millay (1892 – 1950)*

Best Regards,

Gloria and Barbara

Compliance Editorial Comments - Indices are unmanaged measures of market conditions that cannot be invested into directly. Past performance cannot guarantee future results. Diversification helps you spread risk throughout your portfolio, so investments that do poorly may be balanced by others that do relative better. It cannot ensure a profit or protect against a loss.

High-yielding, non-investment grade bonds are considered to have speculative elements and involve higher risk than investment grade bonds. International investing entails special risk considerations, including currency fluctuations, lower liquidity, economic and political risks, and differences in accounting methods.

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