

Market Update – July 15, 2009

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It may just be safe to dip your toe back in the water and actually open your second quarter statements. You'll likely be pleasantly surprised! We saw the best quarter for the following stock measurements since 1998 (no kidding) – the S&P 500 gained 15.2% and the NASDAQ was up 20.05%. (We know it has a long way to go to recoup the ravages of this bear market but it is a step in the right direction!)

The global rebound in equities was, quite simply, phenomenal this spring. And all of it happened while two major automakers went through bankruptcy, major banks managed to weather the drama of stress tests, and oil prices took off. At the end of June, the S&P 500 was a mind-blowing 35.89% above its March 9, 2009 close. Whew!

Here is a recap of some of this year's figures:

.% Change	2Q 2009	1Q 2009	Y-T-D
DJIA	+11.01	-13.30	-3.75
NASDAQ	+20.05	-3.07	+16.36
S&P 500	+15.22	-11.67	+1.78

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

So are we back on the upward track or was the surge a “head fake?” Let's look at some of the events.

Some key indicators moved into the plus column this spring. Consumer spending was up 0.3% in May after a flat April; personal income was up 1.4% in May after rising 0.7% for April (money.cnn.com) Perhaps we were taking advantage of lower prices. The Consumer Price Index dropped 1.3% between May 2008 and May 2009, the biggest year-to-year decrease since 1950.

Turning from individuals to institutions, it was another trying quarter for banks and automakers. Once-invincible Chrysler and General Motors each filed for Chapter 11 bankruptcy; with the help of the federal government, Chrysler found a buyer in Fiat. GM appears to have emerged from bankruptcy after just 36 days, thanks so our tax dollars and some government persuasion. High anxiety preceded the Federal Reserve-administered stress tests of 19 major U.S. banks, and 10 of 19 banks were directed to find more capital – most notably Bank of America, which was told to find another \$34 billion. Other big thrifts (among them Goldman Sachs, American Express, MetLife, Capital One, and JPMorgan Chase) were judged adequately capitalized (federalreserve.gov).

In Washington, reform was in the air. In May, Congress passed new rules forcing credit card issuers to notify cardholders of rate hikes 45 days in advance, restrict credit limits for teens and collegians, and curb retroactive rate increases. June saw the Obama administration and Congressional leaders working hard to revamp financial industry regulations. Meanwhile,

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Washington wrestles with the idea of getting into the healthcare business and whether to issue another round of stimulus. More on that later.

The housing market remains hazy. According to the National Association of Realtors, pending and existing home sales rose in May for the fourth straight month, however the May median sale price was still 16.8% below the median price a year ago. The bad news is that we saw interest rates bump up. According to Freddie Mac, the average rates on 30-year fixed rate mortgages rose from 4.78% to 5.32% from April 2 to July 2 (forbes.com). This will challenge new home buyers as well as those trying to refinance. On a local level, the North County Times reports the median home price rose for the third straight month to \$415,000. They also warned however, “that rising numbers of mortgage defaults could translate into a new wave of foreclosures that would again wash out prices.”

The global markets as a whole are ahead of the domestic markets year to date. There are even countries still experiencing positive growth including China, India and Indonesia (J. Rosenzweig, Emory Univ.) However the World Bank now forecasts that the global economy will contract by 2.9% rather than the previously estimated 1.7% (Bloomberg.com).

We had the opportunity to attend an economic update recently presented by Jeffery Rosenzweig, a professor at Emory University. His take is that the economy is in an ‘L’ shaped recovery, meaning we have bottomed out but not yet started to rise. He explained that the economy needs to grow at 3% in order to absorb new people into the work force. He expects unemployment to rise to 11% by the end of the year and then begin to improve. He also sees hope for the housing market toward next year since our current supplies will be too low for the estimated population growth.

Warren Buffet on Good Morning America (7/9/09) seemed to agree. He stated that we are “not in a free fall, but not in a recovery either.” He also said that we will come out better and that the “best days for America lie ahead.” We say - From his lips to God’s ear.

It can be said that the various financial markets present times for “sailing” and times for “rowing.” In a sailing market when most all sectors are rising, it appears almost any portfolio can rise in value. In rowing markets, however, when most all sectors are negative or sideways, it seems to take a great deal more finesse to succeed. We believe the Bear market headwinds and choppy waters of a rowing market require more active management with strategies that help monitor asset allocation strategies designed to make headway. To assist you in these uncertain times, we continue to add new investment management alternatives to help your portfolios both row and/or sail.

The difficult markets for equities, bonds and real estate over the past year can’t help but cause most any investor to question long-held principles of investing. After all, we’re human and losses are painful. As Herbert Hoover so aptly put it – *“About the time we can make ends meet, somebody moves the ends.”* But not everything has changed. Despite the challenging environment, companies with healthy balance sheets, stable earnings and strong cash flows still exist – even though they don’t make the “news.” The past year’s panic is understandable, but we

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believe it is also likely to pass as investors begin to realize that the fundamentals still apply and that the principles of successful long-term investing remain the same. We are working to help you achieve your financial goals through active investment management that relies on in-depth company research and experienced professionals.

That said - as the financial and political climates change at a pace that seems faster than ever, we recommend frequent reviews of your portfolio. Please call us at any time to schedule an appointment for a review of your portfolio's investments and strategy.

Best regards,

Barbara and Gloria

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