

Market Update – August 14, 2009

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Things have certainly been looking a bit brighter these days. The headlines tell of increasing consumer spending, decreasing jobless rates and rising home sales. And the stock market has taken notice! The S&P500 Index is up 49.4% from its low on 3/09/09 through last Friday, 8/07/09 (Source: BTN Research)

However, the case for diversification has never been more important. Remember last year when it felt like there was nowhere to hide? Almost every asset class was dive bombing. This recent rally looks quite different. Looking at the August 10, 2009 Wall Street Journal, the year-to-date results through Friday, August 7th clearly shows that the recovery is *not* evenly spread across the board.

The most widely quoted index, the Dow Jones Industrial Average, is up just 6.8% while the broader S&P500 index is up 11.9%. That's interesting in that both of these indices reflect large company stocks. When we look at the S&P Midcap 400, we see a rise of 21.7%, while the S&P Small Cap 600 is positive 13.2%.

Now let's look worldwide at some international indices. Europe's DJ600 is up 17.2%, China's up 79.1% while the U.K. index is positive a mere 6.7%. As always, commodities are very divergent. Crude oil is up 59% while natural gas is *negative* 34.65%; gold is up 8.34%.

We realize we just threw a lot of statistics at you but our point is that it may be more important than ever to review the diversification of your portfolio. We think it's also a good time to review your risk tolerance and goals while still cognizant of last year's pain to make sure they're in line with each other. We know that's easier said than done.

Where will the markets head from here? We all know there's no crystal ball but it is a bit of a relief to see the headlines and indices looking brighter. We think there are still some significant headwinds you'll want to keep in mind. According to Genworth, in many cases recent increases in corporate earnings were due to cutting costs rather than by growing revenues. Consumers have moved into the mode of frugality, saving rather than spending – and though that's not all bad, it seems unlikely we'll spend our way out of the recession. And then....there's all that government spending. Can the government really control the money supply and is hyper-inflation on the horizon or deflation, as some suspect?

So what's an investor to do? We think it will be helpful to you to have an understanding of how the various markets perform over time so we've attached an interesting chart entitled *The Importance of Asset Allocation*. This chart clearly shows that the leading performer one year may very well be the underperformer the next – and that a diversified portfolio has, historically

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at least, helped reduce the downside risk over the long term. Another solid case for a well diversified portfolio. (Past performance cannot, of course, guarantee future results.)

We continue to search for growth opportunities in all markets while at the same time are striving to protect against the current challenges. To that end, we have added a number of unique investment strategies and products. Please call for a review at any time.

Knowing, then, that it's not smart to put all your eggs in one basket, consider that if you have some broken eggs all is not lost. After all, broken eggs are what it takes to make an omelet!

Best regards,

Gloria and Barbara

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