

Market Commentary: July 2010

So much for a lackadaisical summer! Even as we celebrate America's 234th birthday, we cannot escape the strong sense that things may get worse before they get better. The last six months appear to be an overture for a drama that will take years to unfold: political uncertainty, a struggling global economy, the tragic gulf oil spill, tepid housing and jobs figures, and Afghanistan, to name a few burdens. And specific to the stock market, the Dow Jones has bounced under 10,000. Weren't we past worrying about the Dow going below this point? Many thought so.

Though this is a quarterly market commentary, we cannot help but look back to last summer for some comparison. Have we forgotten where the Dow was last July? It was at 8500, 15% lower than it is today. 467,000 jobs were lost in June last year compared to 41,000 gained in May this year (not counting the 411,000 census workers). As for one of the top strategic concerns, the massive debt that nations have taken on, markets have been relatively patient for debt measures to start (owing much to fact that the U.S., U.K. and Japan control their own currencies). Additionally, even after a slowdown, China continues to drive world growth and recently indicated that it will let its currency, the Yuan, appreciate against the dollar - a statement of confidence in the global recovery. Therefore, despite the dramatic events and risks that continue to make 2010 a very fragile year, when we look beyond the quarter's returns, there are signs the economy has begun to move forward. Below is a chart of the market returns for the quarter and lagging one year.

	Benchmark Index	3 month return	12 month return
U.S. Stocks	S&P 500	-12%	12%
	Wilshire 5000	-12%	17%
	NASDAQ	-12%	15%
International Stocks	MSCI EAFE	-18%	0%
Fixed Income	Short Term Bonds	1.5%	3%
	TIPS (Treasury Inflation Protected Securities)	3.5%	7%
	Intermediate Term Bonds	5%	8%
	Aggregate Bond Market	3%	5%

All the major U.S. stock and international indices finished down significantly for the second quarter of 2010 while the fixed income securities performed reasonably well. The lagging one-year figures continue to show recovery from the market lows of last year, with the exception of the international index dominated by Europe. After a year's gain, bull markets often fall back temporarily; this is relatively

normal from an historical point of view. 2010 will likely continue to be a very fragile time. However, for investors with sound strategies and discipline, opportunities will also continue. We will be persistent in our work for you in this effort.

At the recent Berkshire Hathaway conference, Charlie Munger, Warren Buffet's partner, said that while most people and firms do whatever they can to avoid large losses, Berkshire is designed to absorb them. "That's our edge", he said.. They are no better at predicting the future than the competition - they openly admit to not even trying - but their whole approach is grounded in the understanding that "outlier" events happen every few years. And with this, they are patient enough to hold capital in preparation for deployment when such "outliers" inevitably arise. Does this approach sound familiar? Our foundational tenets for your portfolio are exactly the same, and they provide you a similar edge.

I drafted part of this commentary while visiting the National Archives (soaking up some air conditioning while seeing the Constitution). What a fascinating place! This establishment performs the task of sifting through the accumulated papers of our nation's official life, growing by billions of pieces a year, and determines what to retain and what to destroy. The National Archives keeps only those federal records that are judged to have *enduring value* -- about 2 to 3 percent of those generated in any given year. We would do well to practice this mindset in our investment lives. We too, have many events each year that seem significant (hundreds in just a day if we follow the media stimulation). How much easier would we sleep if we had to discard 97% of the events from our worry list? And what if the remaining "enduring events" were seen in the context of our whole investment life? What will be the events of enduring value for you this year? This working sabbatical is for me, not about my ability to multi-task (serving both our country and you as clients), but about focus and clarity. It is about finding and communicating the significance that will add value. For all of us at Ames Planning, it is this enduring value that we take most seriously in our work together with you.

Encouraged by our success together, and especially honored by your trust, we wish all of you an enjoyable and restful summer.

"Things will get better despite our efforts to improve them" Will Rogers

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