Market Commentary: 2nd Quarter 2009

"Are we there yet?" We have heard this question quite a few times in the last month. Here in New England it is a bit like asking "Is spring here yet?" We know very well that the official first day of spring and the first spring day are not one in the same and are often weeks apart, but eventually they both happen. Though there is much discussion of having reached the bottom in the stock market, we are not confident of that yet, but we know that, like spring, it will come. And we have confidence in the steps we are taking together to prepare for the next season.

It was not an April Fool's Day prank to see that the Obama administration was pushing America's largest auto maker to file for bankruptcy and to have the stock market respond positively to the news. A few months ago, this sort of headline would have sent the stock market into a tail spin; but not today. Confidence is beginning to return.

Another market boost came with changes to the mark-to-market accounting rules and the Group of 20 (the 20 largest industrial nations) agreeing to $1.1 trillion in new funding pledges and tougher financial regulations to spur the global economy. Our own U.S. government's response to the difficulties in the financial markets has lacked clarity (witness the many variations of the Troubled Asset Relief Program - TARP- since 2008). But that also has begun to change. Signs of hope in the economy are emerging. However, higher and higher unemployment numbers along with the reality of the negative performance in the last quarter indicates winter in the stock market is still with us.

For the first quarter of 2009, all of the major stock indices, U.S. and international, were negative. The S&P 500 and the broader Wilshire 5000 both lost over 12%, the NASDAQ almost 5%, and the benchmark international index MSCI EAFE ended the quarter 18% lower. Fixed income was better during these three months, but still negative, with the exception of Treasury Inflation Protected Securities (TIPS) which were up 4%. Taking a little longer view (painfully), the lagging one year equity returns were in the negative range of 32 - 50% and fixed income returns negative 1-6%. Thankfully, investment time horizons are much longer than a quarter or a year! [Time horizon review: If you are not living off of your portfolio, or you intend to leave your money to your kids or to a charity, your time horizon is long-term. If you are in the middle of your earning years and intend to work for at least five more years, your time horizon is still long-term. If you are living off of your portfolio, or will be soon, your time horizon is related to how quickly you will be spending your money. For some of you, that means you have cash, for others, bonds. The amount of your portfolio in these types of investments, coupled with how much your short-term needs are, dictates your time horizon.]

Even though March may have come in like an injured lamb and left like a lion (stocks were up 7-10% for the month), the healing from the current recession will still take a while. March was the first positive month since September 2008. The short-term market upturns have provided a much needed psychological boost; the long-term impact of the actions taken to instill this confidence is yet impossible to know. Therefore, as one could always say, "the outlook is still mixed." [You have likely come to expect this type of comment from us. Our advice and recommendations are generally moderate in tone and can often point in the opposite direction of the consensus. This view comes from being focused on your objectives, typically the long-term.]

Over the last year, confidence in the stock market has waxed, waned, and at times seemed to almost disappear. However, our confidence as your fiduciary advisors has not changed. The strength of our confidence comes largely from study, experience, and the solid investment strategies we implement. In our letter/email to you in February, we discussed the critical importance of rebalancing your portfolio to ensure investment success. During this "greatest recession since World War II", it is a natural reaction to wonder whether things have changed. Are our beliefs still relevant? This quarter, we will present you with a sample of our "Investment Foundations" as well as our "Trading Discipline". Many of you have seen these before. Given the scary market, both in terms of performance and the recent industry scandals, we feel it is appropriate to spend time reviewing these precepts.

Despite the negative returns, many of you have expressed pleasant surprise at how well your investments have performed relative to the overall market. Our added value in managing portfolios has many aspects, but in pure economic terms we seek to make rational decisions that improve returns over time as well as to prevent errors and minimize losses. Strategically deploying your assets and consistently reviewing your portfolio to make adjustments help us do this. Even as we wait for spring to arrive in the stock markets, we look forward to discussing your individual situation and the global strategies we have in place.

You have consistently honored and blessed us with your trust. Understanding the discipline and fiduciary principles we use in context with your situation will likely buttress that trust, but also give you more confidence in the security of your assets. We hope to continue providing you with understanding so that the risk in the market is embraced for it provides the growth needed for your investments.

As always, please call us with any questions or concerns.

Carl A. Johnson
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