

## Market Commentary: April 2010

“Where are we going? When are we going to get there?” When my wife and I get in the car with our children, we must answer these two questions immediately. Any delay or lack of detail in answering these habitual inquiries only make the trip seem longer, much longer. Because our children are still quite young, an answer like, “to a friend’s house, 11:15 am” will not be helpful. Our response has to be more like, “Kirk and Heidi’s house, and we’ll be there before lunch”. The destination is clear and the time frame is understood. In investment terms, many of us are asking the same questions. Your voyage, financially speaking, is your stated purposes and goals. Our mandate as your fiduciary advisors is to provide clear guidance and thoughtful solutions toward your objectives through outstanding long-term planning and investment advice.

Before we try to look ahead however, let us see where the market has been lately. The first quarter of 2010 ended with the major U.S. stock indices positive and international stocks down slightly. The S&P 500 gained 3%, and the broader Wilshire 5000 and NASDAQ both gained 4% while the international index, MSCI EAFE lost 1%. Fixed income securities were mostly flat for the quarter. Looking at the lagging one-year, the low point of the “Great Recession” was on March 9, 2009 so the 12 month figures ending March 31, 2010 are dramatic (nearing the classic V-shaped recovery). The S&P 500 and the MSCI EAFE both returned 45%, the Wilshire 5000 yielded 48% and the tech heavy NASDAQ was at the top with a 55% gain for the year. Fixed income returns were paltry in comparison with TIPS at the low end giving 1% and intermediate treasuries at the top with 5% for the year. Sadly, many retail investors are now jumping back into the market - so much for timing!

We certainly cannot expect to report such dramatically positive returns in the next few years. Notwithstanding the wonderful one-year returns above, I do not believe we are popping any bubbles when we recognize that the stress on our domestic economy and the strain on families are real and continuing. The recession is clearly not over and reconstituting our nation and its economy will take more time. The global economy has a baseline of risks that include security threats like terrorism and cyber attacks, geopolitical events, and various pandemic health fears. However, as we enter the next phase of our global economy we add the risk and effects of government debt.

A large part of the financial crisis has not really gone away as much as it has been transformed from a banking crisis to a government debt problem. To limit the crisis, nations around the globe enacted stimulus packages driving a transfer of large private sector debt obligations from banks to public sector balance sheets.

These high debt levels can constrain future growth if not managed well. The International Monetary Fund (IMF) has projected that public debt for advanced economies will grow from 78% of GDP in 2007 to 118% in 2014. As governments around the world prepare to keep inflation in check while fostering growth, we are likely to see a very uneven recovery as some economies, like the U.S. at least initially, can handle the debt burden easier.

As we have discussed before, the further we get from the shocks of 2008 and early 2009, the more vigilant we must be. However, even in the face of all these concerns, we still see opportunities and will pursue them in light of your individual objectives. We will do this by building upon the strategic investment foundations that we have in place and will review with you this quarter. For example, one of the foundations is our focus on small company stocks both domestic and internationally. Over the long-term, from 1926 through 2009, small cap stocks outperformed large caps by an average of two percentage points per year. Much of this performance occurred during post-recessionary periods. Though no two client portfolios are the same, we will favor this asset class for its benefits. Overlaid on this small cap emphasis is the current economic environment, specifically the uneven growth among nation's economies coming out of this global recession. This will provide for excellent diversification and the likelihood that we will be able to reduce investment risk with small changes.

The idea of long-term investing, like any journey or worthwhile endeavor, is always a hard one to describe let alone manage. Questions of detail and exact timing are impossible to answer. Determining purpose, planning for uncertainties, and implementing careful decisions, have been our joint responsibilities along the way. *The last few years have been an extraordinary illustration of our teamwork.* Even during this extremely volatile period, we have seen you achieve goals such as enjoying a secure retirement, funding a child's college education, or leaving a family legacy. We are very pleased and treasure having a role in your successes.

We are honored to serve you and wish all a healthy and wonderful spring season.

*"If you don't know where you're going, you'll wind up somewhere else." Yogi Berra*

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