

What can investors expect for the next few years?

I really have one job as an investment strategist – to “get it right.” The person that sits in this chair has to have two very important qualities; one, to have sufficient experience to understand the markets and their potential directions and two, to understand that every decision made is crucially important to the wellbeing of a whole lot of people. I take that job very seriously and the reason I write these reviews is to make sure you have a good chance to manage your assets in the right way.

**2010 YTD
Market
Performance***
(Through 10/1)

**S&P 500
YTD 4.35%**

**Dow Jones
YTD 5.98%**

**NASDAQ
YTD 5.17%**

**MSCI EAFE
YTD 1.51%**

**BarCap US
Aggregate Bond
YTD 7.95%**

**Large Cap Core
YTD 2.69%**

**Mid Cap Core
YTD 11.33%**

**Small Cap Core
YTD 10.67%**

**Market Data supplied
by Morningstar*

Rising From the Ashes

After 2008 many retirements were severely impacted by the equity market's 40% drop. It essentially either extended the amount of time you have to work to achieve the retirement you had hoped for, or it forced you to rethink your entire retirement/investment strategy. Fortunately since the end of 2008, the markets have recovered and there are signs of a sustainable recovery – meek but sustainable. If you maintain the asset allocation that matches your risk tolerance you should be rewarded with some positive growth.

Near Term – Why will it continue to get better?

Companies are moving from cautious to confident – Since the market drop, companies have been building up a large supply of cash. They are starting to let loose and invest in new equipment, personnel, and expansion programs. This will eventually trickle down to small business – their involvement is vital to a recovery.

The Government will not need to add another round of quantitative easing – The economists do not believe this will be necessary and that the chance of a double dip has abated. It is estimated that there is still a very large amount of the stimulus money yet to be handed out. That said they are ready to step in and do what's necessary to keep the economy on its path.

Returns-wise, political gridlock is better for the markets – Historically, businesses seem to feel more comfortable when there is a balance in power. Should there be a shift in control of either legislative body the markets should respond favorably.

Economic data is improving – The index of leading economic indicators recently posted a positive surprise, the home price index climbed for the third month in a row, the GDP was revised upward, auto sales rose, and personal income and expenditures rose more than expected.

While these results do not cover the entire gamut of correlated market indicators they do point to an improving market and one that should continue to rise. There will still be some volatility and retrenchment along the way, but positive none the less.

Planning for the Future

There are a couple of things you can take from the last few years that will help in the future:

- Market timing is a fool's game – If you would have exited the market in February or March 2009 as a lot of people did you would have missed out on a substantial recovery. **Stay invested in your risk adjusted portfolio.**
- Asset allocation accounts for 92% of a portfolio's return – even if you would have been confident in the recovery of the market and put all of your bets on the S&P Index for 2010 (up 4.35% through 10/1/10) you would have missed out on the best performing asset class for this year (long term US government bonds – up 16.57%). **Stay diversified and rebalance from time to time.**
- Macroeconomic data needs to be used in the construction of your portfolio – there are always clear indicators of areas that are either more advantageous or more risky than others. Right now there is still risk relative to those securities pertaining to European debt. **Make common sense decisions.**

The economy should continue to stabilize and remaining fully invested in your risk adjusted portfolios makes great sense now.