FINANCIAL SYMMETRY

Financial strategies for every phase of life

How We See It

Winter 2009

As we began the New Year, most of us were relieved to say goodbye to 2008, arguably the worst year in stock market history since the Great Depression. We were in a recession throughout the year, as it has now been officially declared to have begun in December 2007. While 2008 began with falling home prices, rising energy costs and unemployment, few could have predicted the severity of the financial crisis that would unfold as a result of the overinvestment in housing and creative financing that took place over the last several years. The extreme volatility that occurred in the fourth quarter wiped out a significant amount of wealth on Americans' balance sheets. These factors have left consumers not only feeling less wealthy, but also uncertain and pessimistic about future prospects for the economy and the stock market.

While negativity has dominated most of the recent headlines and news commentary, there are positive indicators developing and opportunities being created. We do expect to see more short term volatility before the end of this bear market, but the catastrophic losses that took place last year are actually encouraging signs that 2-5 year returns from this point are likely to be good. This has been a generational bear market, and bull markets are born from bear markets.

It is important to remember that the stock market is a leading indicator. That means that you will typically see a recovery in the stock market before the economy recovers from a recession. It is likely that the economy will continue to get worse over the next 3-6 months and that we will see more job losses. However, as we noted in our November "Gameplan" mailing, we believe the odds of a depression scenario occurring are very low. This is because of the considerable actions being taken by the Federal government to stimulate the economy by lowering interest rates and increasing the money supply. Obama's $800 billion proposed stimulus plan would also create jobs and encourage consumer confidence. This is quite a difference from the federal strategy from 1929-1932, when they raised taxes and cut spending, perpetuating a downward spiral.

Another type of economic stimulus that has occurred, but has not garnered much media attention, is the drop in gas prices over the past 6 months. Clearly oil became over-inflated and the reduced demand sent the price into a quick decline. This occurrence has reduced some of the strain on the consumer and freed up cash flow to be spent on other items. Combined with government efforts, this should prevent the recession from becoming much more severe. There is a risk that the government stimulus will inject too much money into the economy and lead to a rise in inflation. We are hedging that risk by incorporating inflation protected bonds in many of your portfolios. They have currently been pricing in an expectation of deflation, making their prices fairly attractive.

As always, it is essential that we stay abreast of any developments or changes to your financial situation, so please let us know if there are any additional factors you feel we should take into consideration for your investment reviews.

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