



## Market Commentary

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It is well known that the stock market is the most accurate indicator of future economic activity. It proved correct when it began its sharp and protracted drop from over 14,000 on the Dow Jones Average in the fourth quarter of 2007, reaching its low of 6,400 on March 9, 2009. It successfully anticipated the financial crisis of 2008 and the ensuing deep recession. Even today, most people do not realize how perilously close we came to a devastating near-collapse of the banking and financial infrastructure of the US and world economies. The resulting recession proved to be the deepest and most severe since the Great Depression of the 1930's, especially in terms of job losses. The Gross Domestic Product (GDP) fell to -6.7 in 2009. However, from the low of March 2009, the Dow has made its climb back reaching 11,000 earlier this year. Again the market is correct; the financial crisis, although costly in terms of long-term debt, has brought about stability in the US financial sector. The economy is not great, but better.

GDP has turned positive at 2.7%, indicating slow growth compared to contraction during the recession. Most businesses are seeing some positive signs and have stopped shedding jobs at the 2008-2009 rates, and some industries are actually hiring. Throughout the second quarter, companies reported much better earnings than were expected. Currently, many companies are sitting on large cash positions, accumulated because of their leaner and hence more profitable condition coming out of recession.

Now, the markets are struggling, faced with a quandary. From the high of 11,204 earlier this quarter, the Dow is trading in a range at or below 10,000, closing at 9,788 at quarter end. From that close, this 12.8% drop qualifies as an official correction. Simply put, this indicates uncertainty about the future. Here is the issue. Is it time to pay the piper? Remember the days of bail-outs, stimulus packages and one extension after another of unemployment benefits? The appropriate concern was then and is now – the debt – not just a little, but a lot! In fact, our debt is almost 100% of GDP totaling \$13 trillion, and our annual deficit spending is approaching 10% of GDP or \$1.3 trillion. Greece and Spain, two of the most problematic countries in the European Economic Union (EU), have debt levels at about the same level as we have here in the US. Are these countries a microcosm of the US? Is there a warning for us? What are the markets telling us?

The credit ratings of these troubled economies are very low. Their debt offerings, such as bonds, have few buyers; consequently, their value has fallen sharply. The past couple of months it has felt something like the financial crisis of 2008, but this time it wasn't companies like Goldman Sachs and AIG but countries like Portugal, Ireland, Greece and Spain (PIGS). It was the strong members of the EU, like Germany, who stepped in with their version of a bailout that saved PIGS and the EU from essentially collapsing. As a result of this intervention, these troubled countries are being forced to adopt very painful austerity measures.

Social benefits or entitlements are being cut by 20%-30%, and taxes are being raised. Non-EU countries, like Great Britain, are also adopting very austere policies. These measures are being taken to contain the growth of debt, stabilize the currency and improve credit ratings.

The likely cost of austerity for much of Europe is to slip back into recession or face up to five years of very slow growth. In a nutshell, here is the question: Will the global systemic problems prevail, or will the resilience of the marketplace prevail? Usually, the marketplace wins, as long as it is not too encumbered with uncertainty.

What should you do? You should persevere with certainty in a world of uncertainty. It is proven that if you continue to contribute to your account in both good and bad times (dollar-cost-averaging), that the outcome is almost always favorable to you. Here is a “for instance”: One dollar investment in small company stocks made in 1926 would have grown to \$14,000 by the end of 2009. There was more uncertainty, adversity and risk during that 85-year period than we face today. It is clear that the marketplace prevailed as it will in the next 85 years. Patience and persistence pays! As your advisor, we will do our best to analyze the markets and make reasoned judgments about risks and opportunities. Hopefully, that combination of persistence and judgment will produce good results for you, your family and for a brighter future.

To help achieve long-term retirement security, you should give careful consideration to the benefits of a well-balanced and diversified investment portfolio. Spreading your assets among different types of investments can help you achieve a favorable rate of return, while minimizing your overall risk of losing money. This is because market or other economic conditions that cause one category of assets or one particular security to perform very well often cause another asset category or another particular security to perform poorly. If you invest more than 20% of your retirement savings in any one company or industry, your savings may not be properly diversified. Although diversification is not a guarantee against loss, it is an effective strategy to help you manage investment risk.

In deciding how to invest your retirement savings, you should take into account all of your assets, including any retirement savings outside of the Plan. No single approach is right for everyone because individuals have different financial goals, different time horizons for meeting their goals, and different tolerances for risk, among other factors.

It is also important to periodically review your investment portfolio, your investment objectives, and the investment options under the Plan to help ensure that your retirement savings will meet your retirement goals.

**Department of Labor information.** For more information regarding individual investing and diversification, see the Internet website of the U.S. Department of Labor at: [www.dol.gov/ebsa/investing.html](http://www.dol.gov/ebsa/investing.html)

**These models are for illustration only, and returns do not represent actual participant returns or a reduction for plan expenses, which will reduce returns.**