

LFM&P

LINNARD FINANCIAL MANAGEMENT & PLANNING, INC.

Registered Investment Advisor, Wealth Management & Financial Planning

January 1, 2010

Outlook & Trends

Short-term economic conditions continue to improve. The financial storm continues to abate, although this does not suggest that the longer financial hurricane season that we wrote about in the last newsletter is over. Conditions are always changing, sometimes for the better, sometimes for the worse. Over the long pull, it is not the conditions themselves that make the difference; it is how we deal with them. It is important to your future well being to understand economic events in their proper context and maintain and execute a sound financial strategy based on your long-term view. Our goal is to provide clarity and independent thinking that will help you challenge the conventional wisdom when it is necessary.

The Economy

Without exception, the economic indicators we watch are improving. Gross domestic product increased at an annualized rate of 2.2% in the third quarter, and the leading indicators continue to rise. Even the annual change in employment, while still negative, has ticked up a bit. Likewise, the corporate profit picture, a primary driver of stock prices, appears to have bottomed and is “only” down 6% from the third quarter of last year. Analysts are projecting full year 2009 profits to be 13% higher than in 2008 and expect robust growth to continue in 2010. The survey of purchasing managers also continues to reflect expansion.

Likewise, the number of existing home sales has continued to grow, although this may be due to buyers taking advantage of government incentives and may not reflect organic growth. Despite the increased activity, the market still favors the buyers. Prices continue to fall. The National Association of Realtors reports them to be 7.3% lower than at the same time last year and 4.4% lower than at the recent peak that was reported in June.

While the economic patient is recovering, much of the progress may be traced to government life support. The Federal Reserve is maintaining an interest rate target of less than ¼% and is pumping money into the system by buying \$1.25 trillion of mortgage-backed securities. Many of the Fed’s support arrangements will be dismantled in the first half of 2010. The large government spending programs will still be in effect and should continue to provide some temporary economic boost. We shall watch to see how well the patient continues to recover after the Fed’s life-support plug is pulled next year.

The Financial Markets

The stock market has responded well to cheap money policies and a better earnings outlook. Stocks climbed 5.6% during the quarter. On the other hand, 30-year treasury bonds lost 7.6%, continuing to give up the price premium that resulted from investors’ stampede to safety late last year. Additionally, the bond price drop (and increased interest yields) may reflect concerns about future inflation. Commodity prices, like energy and gold, also moved higher during the quarter, aided by a cheaper dollar, increasing economic activity and potential inflation.

When the Wind Changes, Adjust Your Sails

Outlook & Trends often discusses the need for financial planning. Equally important to you is the need for good financial execution. Planning and execution are two sides of the same coin. Planning increases the likelihood of achieving your financial goals by focusing on the result you want, rather than getting distracted by the financial

process. It also helps you to discriminate between important issues and mere distractions. But a plan that is not well executed may not produce the desired results. Even worse, a plan that is not implemented is worthless.

Execution is a dynamic process. It is the function of managing within the constraints that life places upon us. Conditions are always changing. Extra attention and effort are necessary to keep both life and financial progress on track when conditions become adverse. *When the wind changes, adjust your sails!* Sometimes winds are light and relaxing. Sometimes winds are blustery and navigating requires considerable attention. Sometimes winds are too strong and present a significant hazard. Even the most experienced sailor can be surprised by a sudden gust. But we can position ourselves to be less exposed. We can manage our risk. Effective execution requires preparing for the foreseeable and quickly adjusting to the unexpected.

The winds of life can shift based on our health, our relationships, and other circumstances that are beyond our direct control. Likewise, the winds of our financial life may change abruptly. Often we do not have direct control over the forces that affect either our lives or finances, but we can control our actions. We can reduce our risk exposure before a problem occurs. Afterward, our sole focus should be on responding effectively to the change in the wind.

Recently, the financial and life plans of many people were blown off course by the financial meltdown. The plans of others effectively capsized, turning their financial position upside down. Being accustomed to the favorable winds of economic expansion, many people had cleated their sails, lashed their tiller and relaxed, not expecting the economic winds to change so violently. Good execution requires an awareness that conditions can change, often rapidly and unexpectedly. Good execution requires vigilance and the ability to adjust your sails. Sometimes it is possible to set the sails to take better advantage of conditions that are blowing favorably toward your target. Sometimes, during adverse conditions, all that can be done is to lower the sails, reduce risk and wait out the storm.

If the shifting winds of life have taken a person by surprise or caused damage, it may be tempting to curse the wind as the source of our troubles. But cursing the wind will not change a thing. The wind is neutral. It has simply acted like the wind. It does not blow for either good or bad. It is how we deal with the wind and our circumstances that matters. The solution lies in adjusting your sails going forward. We can learn from our encounters with the winds of life. We can learn how we can do things differently in the future, to minimize and manage the risks we encounter. We should actively seek to apply this knowledge, for it is the basis for the intelligent execution of our life plans as well as our finances. Without the active recognition and application of new knowledge and solutions to improve our execution, we will continue to be blown off course.

MarketAware

LFM&P's MarketAwareSM approach is the execution side of our financial management process. We have long felt that the ubiquitous market "unaware" buy-and-hold approach was similar to ignoring the wind, cleating the sail and lashing the tiller. We have included our latest results to show how different execution strategies could have affected your progress.

If you need to build, rebuild or review your financial plan and strategy, we suggest you seek a Certified Financial PlannerTM, like *LFM&P*, who acts as a fiduciary advisor and does not sell financial products. A good plan, executed well, that can survive a tough economic climate is likely to be an investment worth far more than the cost. To learn more about our client goal-centered financial planning and management services please call or e-mail. We also encourage you to look at our website, www.linnardfinancial.com.



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