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LINNARD FINANCIAL MANAGEMENT & PLANNING, INC.

Registered Investment Advisor, Wealth Management & Financial Planning

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Outlook & Trends

The widely expected recovery is still just that – widely expected. We have seen some healing of the financial market meltdown that aggravated this recession, but the data does not yet reflect a reversal. It is true that opportunities are born in these conditions for those ready and willing to take advantage of them, but there have also been periods that looked somewhat similar that carried significant risk. To reach your financial goals, it is important to place economic events in the proper context and maintain a sound financial strategy. Our goal is to provide you with independent thinking that will challenge the conventional wisdom when necessary. In this issue, we point out times when past stock market movement was similar to the recent pattern and hope to help you understand how both your risks and appropriate strategies may differ depending on your age.

The Economy

There has been much hope for economic improvement as commentators' talk of seeing "green shoots" of economic revival appearing after a severe economic winter. There has also been some comfort expressed in the fact that while conditions were getting worse, they are not getting worse as fast as they were before. Our review of the economic indicators shows that conditions are continuing to worsen, with the exception of housing and indicators that precede an actual turn around.

We mentioned in the last edition of *Outlook and Trends* that most economic indicators had sunk low enough to be at, or near, the area where previous economic bottoms occurred. This is still true since there has been no visible turnaround yet and activity continues to slow. Housing, which led the recession, may be the first indication of return to stability. Improvement may also be a mirage resulting from unprecedented government intervention. In any event, according to the National Association of Realtors, the number of homes waiting to be sold has dropped since last summer, and home prices have risen nationwide since bottoming in January. These are both good signs.

The Financial Markets

Has the stock market bottom occurred? It is still premature to make that call with any degree of certainty. Stock price movements are made up of a complex composite of numerous different length trends all superimposed upon each other. This occurs because various time horizons are of interest to different investors and traders. Bottoms are formed when all the trend components have turned up after falling in unison. The stock market continued to recover from its low point during the quarter, retracing the ground lost since last October. This is indicative of at least a rising intermediate trend, but does not necessarily imply that the longer trends have turned up yet. The economic collapse was strong and sharp, creating an unusually strong long-term downtrend. Eventually, stock prices will follow expectations of corporate profits and economic changes. Analysts are currently optimistic, suggesting that profits may finish 2009 about 10% higher than 2008. We will have to wait to see if the analysts' opinions turn out to be accurate.

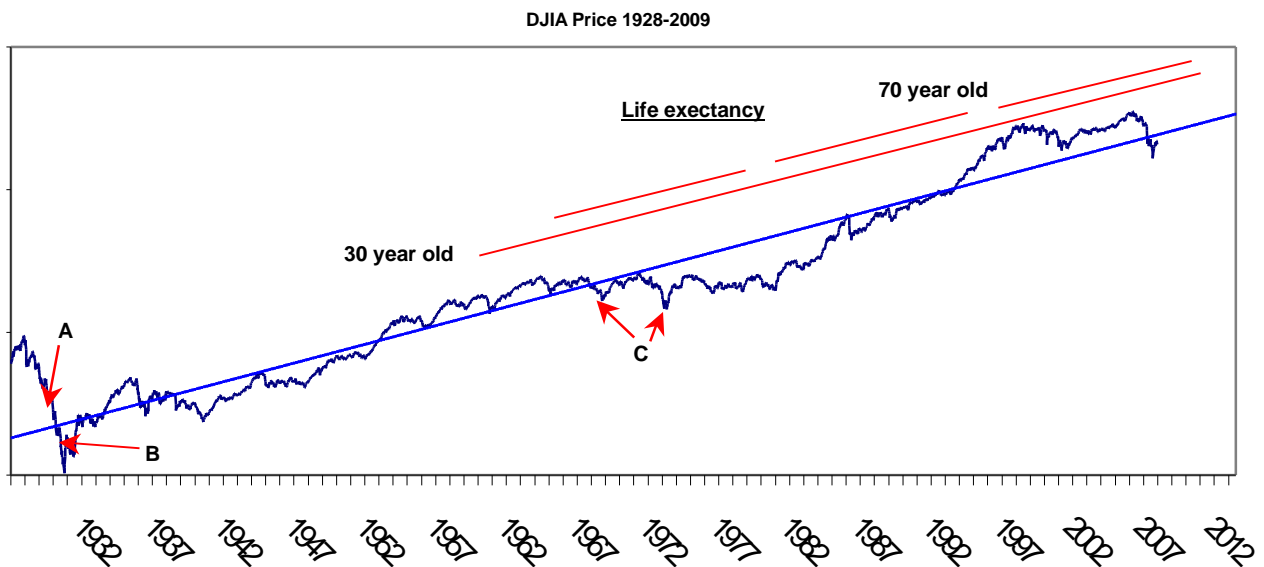
Long-Term Trends, Your Age and Strategy

It may be helpful to compare the current market price pattern to several in the past, not to predict the future, but to get a sense of the possibilities. The chart below shows the Dow Jones average from 1928 to today, printed on a scale that avoids distortion by showing equal percentage movements as equal distances. We have marked times that look similar to today as points A, B and C. You can see that there were significantly different outcomes.

We advise investors not to blindly accept the generic advice offered by the financial community. You should make sure your strategy is appropriate for you as an individual. For example, your age can be an important factor that drives your strategy. The chart shows a long red line that equals the life expectancy of a 30-year old and three shorter lines that show the life expectancy of a 70-year old at different points on the time line. It is clear that the younger person need not be overly concerned about temporarily difficult market conditions. The general 8.4% trend (blue line) can be expected to prevail over the long term. This expectation supports the conventional advice that suggests buy-and hold investing coupled with continuous contributions and dollar-cost averaging should work well over most of their lifetime.

On the other hand, the results for a 70-year-old (or anyone close to retirement) are far more dependent on economic conditions. If the period is like the 1980s and 1990's, buy-and-hold will work during this strong trend as well. During the 1960s and 1970s, buy-and-hold produced almost no return, however, not counting dividends, and each gain realized over a several year period was subsequently lost. A more active approach that protected capital during the down swings may have been preferable. The last ten years of zero return make today's market look suspiciously reminiscent of the 1970's.

The chart also illustrates why it is important for a younger person to begin to invest early and continuously. If they procrastinate, they run the risk of leaving the success of their retirement preparations to the economic conditions that happen to prevail at the time.



If you need to build or review your financial plan and strategy, we suggest you seek a Certified Financial Planner™, like LFM&P, who acts as a fiduciary and does not sell 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 services or to find out how our risk-managed MarketAwareSM investment approach has surpassed market returns by protecting our clients' wealth, please call or e-mail. We also encourage you to look at our website, www.linnardfinancial.com.

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