LFM&P

LINNARD FINANCIAL MANAGEMENT & PLANNING, INC.

Registered Investment Advisor, Wealth Management & Financial Planning

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Outlook & Trends

There is no reason to dwell upon the obvious. The economy has been poor. The stock market has been poor. That is the past. It is time to start looking for positive outcomes in the future. 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 hope to help you understand the current financial and economic conditions and try to help you regain your financial balance.

The Economy

We have been witnessing an historic episode in our economic history. The economy fell off a cliff in the last quarter of 2009, contracting at an annual rate of 6.3%. One needs to go back to 1958 to find another decline of the same magnitude. Industrial capacity usage is as low as 1982, which had been the lowest point in the last forty years. The growth in consumer credit is approaching several cyclical low points that have been touched over the last sixty years. Corporate profits declined 21% over the last year, which is a performance not seen since 1958. Employment has dropped by 3%, the worst annual showing in fifty years.

What should we make of these numbers? Should we hide under our financial beds or can we sense great opportunity? Granted, the data is terrible. However, all these various measures have reached levels that have represented lows in the past. This does not mean that conditions will not get worse, but we are in a position now where the heavy government intervention may put a floor under the decline. Even so, this does not mean that conditions will improve immediately. Leading economic indicators have not yet turned around.

Signs of spring may be coming to the real estate market after its long economic winter. With 30-year mortgage rates dropping to 5% or less, real estate conditions may be picking up. The National Association of Realtors reported a smaller inventory of unsold homes than at any time since January 2007, suggesting a bottom. Prices typically begin to rise in the beginning of the year, so it is too early to tell for sure if the 1.5% price rise during February marks the turn-around. This is a minor improvement after a 25% decline, but it surely is better than a continued drop.

The Financial Markets

The stock market spent the first two months of the quarter trending lower as the government talked down the economy to pass the stimulus bill. Shortly afterwards, the tone from Washington improved and stocks recovered. Treasury bonds fared worse. Bonds ran up sharply in late 2008, when investors flocked to their perceived safety. The safety turned out to be an illusion as the 30-year bond price dropped 15% during the quarter. Several sectors turned in a positive, or at least neutral, performance including gold, emerging markets, and mortgage bonds.

Many investors are wondering whether the stock market has bottomed. The possibility is conjecture at this point. Bottoms often occur in stages. This first stage is a crescendo of pessimism as investors are fearful of a deteriorating economy. Subsequently, when the predicted economic contraction becomes reality, prices may fall off again. The bottom is formed as investors sense a change and begin to look forward to recovery. At that point their outlook is a guess at best. If conditions continue to worsen, new lows may follow, so the final bottom can only be pinpointed in retrospect after the economic recovery has begun. The 2002-2003 bottom actually contained three separate bottoms over a nine-month period. While the occurrence of the current market's bottom will be a guess for a while, one thing is clear – market risk is much lower now than it was 18 months ago and opportunity is much greater.

Retirement Plan Therapy

During this economic waterfall, much attention has been paid to the unemployed and the homeowner whose home equity has disappeared. Less attention has been paid to a possibly greater problem – the person who is in, or near, retirement and has found that their retirement savings have been cut in half, possibly impacting their lifestyle as long as they live. Furthermore, new government policies may reshape the retirement landscape. Changes to Social Security, Medicare and higher inflation are all distinct possibilities. This is a good time for everyone to give some attention to their retirement plans, fixing the broken ones and checking others in light of the economic changes.

What is a good retirement plan?

First of all, it is important to recognize what a retirement plan is and what it is not. A good retirement plan identifies your goals, estimates what your living expenses will need to be, and identifies what financial resources you will need to support your retirement lifestyle. It is a blueprint to define what actions to take, and what adjustments to make, so that your financial resources can be expected to last for your lifetime. Hope that the market will recover is not a plan. A retirement plan is not a 401(k) or IRA. It is not an annuity, nor is it a pension or life insurance policy. These are financial resources that may support your retirement plan, but they are not a plan.

What you should do now.

If you have developed a plan in the past, and it was prescient enough and sufficiently robust to accommodate the recent stock market plunge, you should stay on your course with a sense of relief, but double check to make sure that it will accommodate a new era of persistent inflation, which is the primary enemy of retirees.

If your plan did not anticipate the effects of the market crash, and you have not yet entered retirement, take advantage of your opportunity to make corrections. Reevaluate your approach. Make a revised inventory of your financial resources. Reevaluate and correct your susceptibility to risk. Make sure that your after-inflation buying power will last for your lifetime. You have many more options available today to put yourself on the right path than you will later. The closer retirement is, the less flexibility you have.

If you are already in retirement, don't panic. Review your resources as they stand today and consider your lifestyle. Make sure you know how much inflation adjusted income you will need for your life. Consider any legacies you would like to leave to others. Make sure you know if changes are necessary and how to implement them.

If you are approaching retirement and have accumulated some financial assets but do not have a plan that you can trust, it would be wise to develop a detailed approach as soon as you can. The younger you are, the more time you will have to accumulate the resources you need. If you have a clear plan, you are more likely to make informed decisions and less likely to waste money on an improper strategy or some financial product that you do not need.

If you need to build or review your plan, and are not sure that you can do a good job yourself, 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 MarketAware℠ 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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