LFM&P

Linnard Financial Management & Planning, Inc.

Registered Investment Advisor, Wealth Management & Financial Planning

July 1, 2010

Outlook & Trends

Economic and financial market conditions are uncertain. The economy has shown signs of growth, but this improvement has depended on government action. The stock market has rebounded off its lows, but is showing signs of stalling. Readers of *Outlook & Trends* over the years know that our primary goal has been to try to provide you with clarity, independent thinking and insights that are sometimes different than the conventional wisdom. We have encouraged you to be aware, take charge, and manage your financial progress. While the overall economy is important to everyone's well-being, the manner in which you manage your affairs is the most important factor affecting your individual financial success. In this issue, we help you apply lessons of successful business management to evaluate your family's financial strategy

You, Inc.

We are all familiar with healthy, well-run businesses. They have a strong focus. They know what they must do to serve their customers. They pay attention and do it well. They also have a sound financial structure. They build shareholder equity and retain some of their earnings to provide for new investment, which will continue to build their business and improve their product or service. Their employees work toward a common purpose. They routinely update their operational and financial plans and concentrate on executing them well.

Recently, we have all also become aware of some poorly run companies. We have seen how they might provide a product that customers do not want to buy. They have a weak financial position, allowing them to exist in the short-term, while long-term liabilities build to the point of insolvency, eventually destroying not only their own shareholder value, but also needing taxpayer bailouts as well. Instead of reinvesting earnings, they spend their funds on executive salaries, corporate jets, $6,000 shower curtains, and destructively generous employee contracts. There is little internal cohesion. Planning and budgeting is a political exercise rather than a real business blueprint.

While economic conditions are good, the poorly managed companies may be able to survive and even masquerade as a healthy company. They prop up their outward appearance by borrowing the funds that they are not earning. Attention is paid to short-term executive perks and salaries rather than solid business principles. But when the economic cycle turns down, and sales and loans dry up, the difference becomes clear. Lack of management focus has left them with out-dated products and fewer customers. The inability to arrange new financing leaves the long-term liabilities exposed. Insufficient planning allows the seemingly abrupt change in fortune to surprise everyone.

It would be fairly easy to compare the current US economy and government policies to the problem company. That similarity may be one of the reasons that the stock market values (the economy's shareholder equity) have not increased for 10 years. You are encouraged to do that exercise, for it may help you to better understand the current climate, but that is not our purpose here.

If you and your family were a company, which description would best fit your condition? Suppose your family is a company called You, Inc. You are the executive in charge. The employees are your family, and your future well-being is represented by the shareholders' equity.

Over a full lifetime, each of us has 40-50 years for our You, Inc. to be in business, to provide a service to others and earn income in the process. During that period, You, Inc. must earn sufficient shareholder's equity (wealth) to provide for another 30-40 years, or face the prospect of needing a government bailout (public welfare assistance). You, Inc. must also run your business effectively along the way, satisfying your employers and customers, while providing for the needs and education of employees (your family). You, Inc. will be most successful if there is a business plan, crafted with your ultimate goals in mind, it is well communicated to the employees (family) so that everyone knows what to expect, and the plan is well-executed by all. One major focus of the You, Inc. plan would be profitability. You, Inc. would make sure that expenses are always less than income, so long-term wealth continues to build. Excess funds would be reinvested for a reasonable return. Debt would only be used for investments that produce a positive return for the shareholders (your retirement savings), not the employees (current family expenses), and interest payments would be kept to a minimum.

A healthy You, Inc, would reject the practices of unsuccessful companies. They would keep an eye on the long-term goal and resist expenses for short-term executive perks (expensive impulse purchases) that do not contribute to shareholder wealth (for your future). They would also resist expensive employee contracts (family expenses) that provide lavish benefits and are detrimental to the long-term goals. They would steadfastly avoid financing any of these expenses by borrowing money, knowing that this practice destroys wealth and could create problems when the economy turns down again.

If the methods of the weak companies are emulated, You, Inc. is likely to consume its shareholder equity (your wealth and retirement savings), be buffeted by economic conditions, and eventually become dependent on others for a bailout. By following the approach of the healthy companies, You, Inc. will be able to weather economic storms better than most, steadily build wealth, and provide for your long-term independence.

The Economy & Markets

The economy is at an interesting point. Federal Reserve easy money policies and government spending have provided support for a U.S. Gross Domestic Product growth rate of 2.7% in the first quarter. Most economic indicators are rising and are suggesting modest growth ahead. The primary holdout is employment. The improvements in this area have been largely artificial, generated by governmental hiring. This suggests that growth is not yet self-sustaining. In fact, one measure of leading indicators has recently dropped off.

While the US economy is trying to maintain its footing, European countries are facing debt pressures. Like the poorly run company described above, these countries have over-borrowed in order to overspend on their "employees" (government workers and entitlement programs). The prospect of cutting back is generating violent street protests, but lenders will stop supplying new money as insolvency becomes closer. Early last quarter, there were fears that these financial pressures could be contagious, affecting many other countries. Now there is an additional concern that cutbacks of the excess spending and new tax increases, which are intended to improve the countries' financial position, will slow down economic growth before the recovery has a chance to firmly take hold.

The stock market peaked in early May, just before riots in Greece reached the boiling point, then dropped 15.3%. On the other hand, treasury bonds have been rallying since April. Both of these actions could simply be counter-trend moves or they could be harbingers of lower economic activity and a reduction in investors' appetite for risk.

If you need to build, rebuild, adjust or review your financial plan and strategy, we suggest you seek a Certified Financial Planner™*,* who acts as a fiduciary. Choose a fee-*only* advisor like *LFM&P* that does not receive commissions or rebates from selling you financial products like load funds and annuities. 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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