LFM&P

LINNARD FINANCIAL MANAGEMENT & PLANNING, INC.

Registered Investment Advisor, Wealth Management & Financial Planning

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Outlook & Trends

There has been real improvement in economic conditions over the last three months. Before celebrating, however, it is important that we distinguish between short and longer-term conditions. Later in this newsletter, we compare the longer-term outlook to hurricane season. It is important to your future well-being to understand economic events in their proper context and maintain 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

Six months ago, *Outlook & Trends* mentioned that the economic indicators were about as low as they had ever gotten. We said, "…the heavy government intervention may put a floor under the decline". Many of the indicators have since improved. The survey of purchasing managers reflects expansion. Capacity utilization, industrial production, corporate profits and retail sales have all turned up. As usual, however, employment is lagging and still dropping.

Even residential real estate has seen some firming prices across most of the country. The inventory of unsold homes has dropped to a level not seen since 2006, which suggests there will be continuing improvement. Thus far the average US home has recovered 22% of its $70,000 loss, so there is still quite a ways to go.

Having apparently turned the corner, the question now is how well the recovery, which has been fueled primarily by the Federal Reserve pumping money into the economy, will be able to stand on its own. It is likely that new attitudes toward credit by both lenders and consumers are likely to restrain the future rate of expansion. It is also possible that government overspending could lead to significant inflation and interest rate increases when economic activity picks up again. This may, in turn, work to dampen real growth.

The Financial Markets

Risk assets are making a comeback. The stock market has regained strength. Corporate bonds have performed better than Treasury debt lately. Despite the well-publicized stock market gains, the S&P 500 has only recovered between a third to a half of its 57% loss, which suggests there is still room for significant appreciation without having to break new ground. To date, the strength of the rally has been impressive, hardly pausing for the normal correction. Advisor Martin Zweig popularized two investing rules a number of years ago, "1) Don't fight the trend and 2) Don't fight the Fed". Right now both the trend and the Fed are suggesting continued improvement.

Hurricane Season

Readers living on the eastern and gulf coasts of the US are all too familiar with hurricane season, which extends roughly from August through October. During this period, severe storms can rise up rapidly, gaining strength from warm ocean waters, and cause widespread disruption of people's lives and significant losses of property. They leave as quickly as they came with the sun shining brightly on the damage left behind. Just as with a hurricane, the economic sun is beginning to shine again, but it will take time to rebuild the real estate losses and shattered retirement plans the storm left in its wake. Hurricanes are not one-time events. They come repeatedly during hurricane season. Some are major storms. Some are a mere a nuisance. Some hit other people. Some hit you. The important point is that one must be prepared for the next storm's arrival until the season is finished

Our financial hurricane season was preceded with the warmth of the late 1990's expansion. Our first major hurricane during the season, Hurricane Alan (Greenspan), lasted from 2000 to 2003. The most recent storm, Hurricane Ben, is just passing now. Theses storms are not isolated events. They are arising out of the fertile conditions of government easy money policies and credit expansion. Hurricane Ben owed much of its strength to the credit policies put in place to clean up the prior damage from Hurricane Alan. Until the underlying policy strategies change, we can expect the financial hurricane season to remain firmly in place, routinely generating new storms every several years. Eventually the season will end. If the right policies are undertaken, it will again change to a summer-like economic expansion like the one that followed the 1970's financial hurricane season. If the wrong policies are adopted, it could change to the winter-like climate of the 1930's.

Being in financial hurricane season has important implications, particularly for people planning to retire soon or who are already in retirement. It is important to pay attention and measure your financial progress against your plans. In the lazy days of economic summer, it may be possible to take it easy and assume that everything will turn out well, but this approach is dangerous in hurricane season. Buy and hold investing works very well in economic summers, but may not produce the growth you are counting on to fulfill your plans during hurricane season. (If you missed the long-term graph in the last issue of *Outlook and Trends,* you can find the July issue on the "About *LFM&P*" page of our website at www.linnardfinancial.com).

When hurricanes are expected, people who may be in their path typically do not lie on the beach. They take precautions. They buy additional food. They board up windows. They may even evacuate. They manage their risk. Between storms, they plan and make sure they are prepared for whatever comes next.

Although the recent storm has passed, this is not the time to become complacent. It is still hurricane season. For most people's financial plans, doing nothing is not a good option. Disappearing pension plans, disappointing real estate investments and disastrous borrowing habits have left many people's financial condition in trouble. Inflation may further devalue their future. What is a person to do?

The answer is likely to be to get back to basics. Set aside the financial ideas that worked so well in the different season of 1980s and 1990s. Re-examine well-known and tested principles from an earlier time. Live within your means. Do not use credit for discretionary expenses. Have a plan to meet your financial goals. Routinely save and invest enough. Pay attention to your financial progress. Actively manage your risk.

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 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 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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