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Trusted Advisor

By Gary E. Miller, CFP™

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WHO WE ARE
Certified Financial Planner™ with 35 years direct experience advising investors

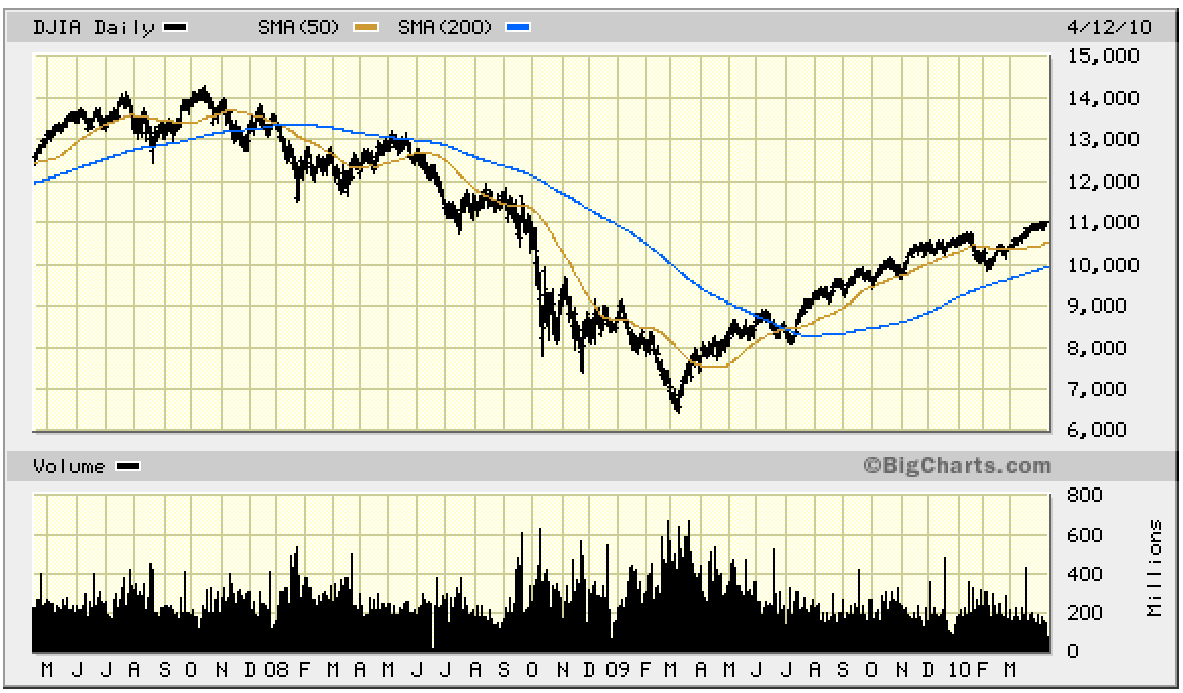
WHAT WE OFFER
Complete review of your budget, your tax situation, and your ability to build wealth. We can also review your safety net: Sufficient emergency fund? Properly insured?

WHY YOU CAN TRUST US
We are retained as direct consultants to you. Since we act as fiduciaries, we do not offer any products, insurance, or investments for sale. We are your trusted advisor.

HOW WE ARE COMPENSATED
We are paid by you for rendering advice for your benefit. We may make a one time review or provide ongoing financial and investment advice. Our fees are very competitive and fully disclosed.

Quarter End Review

I'm feeling like I've seen this movie before, the story of a Bear market that went off the rails and became a Bull market while most investors were steeling themselves for a greater collapse. The financial markets' behavior of the current cycle, replete with a drum beat of cautionary words from Bad News Economist Bears, easily fits patterns I've lived through for over 36 years of active market participation.



Certified Financial Planner™

Gary Miller is in his 36th year of providing financial guidance to individuals and pension plans. He is a Registered Investment Advisor and a Certified Financial Planner ™ Practitioner. Gary holds a Certificate in Personal Financial Planning from the University of California, Irvine and has served as a Board member of the Financial Planning Association, Orange County Chapter.

For information about attending one of Gary's seminars please call 949-249-2057 or e-mail gary@trustedfinancial.com

With the first quarter's results before me, I am struck at the enormity of the gains seen in many of our clients' holdings, from their value of a year or so ago. Numbers like 30-60% are seen among the better performers. Do I hear the distant hoof beats of charging Bulls? Economic reports are beginning to validate the stock markets' behavior: new claims for unemployment are drying up, housing prices are reported to have stabilized in some weaker markets, like Los Angeles, and manufacturing activity in the USA rose ten of the last eleven months, according to the Commerce Department report released March 31, 2010. The Institute of Supply Management's index of service sector jobs rose in March for the third consecutive month.[1] On April 9, 2010, many major retailers surprised skeptics by reporting strong March 2010 sales gains over last year. My personal experience has shown again and again, that the stock market is a reliable predictor of future economic activity. A year ago, in the midst of an apparently hopeless downward spiral, the turn arrived, although hardly anyone knew it at the time.

With a stock market that has gained value in a manner not seen since the Tech Boom, it is not surprising if one finds a bit of Greed stirring the pulse. I see the symptoms in myself: I find myself checking purchases that have soared and regretting I did not purchase more, when I should be congratulating myself on having the insight to step in months ago. Fortunately, having lived through this movie many times before, my inner voice of experience suppresses the inner *Gordon Gekko*[2] with a reminder of the bleakness of our all-too-recent Bear market. Only a year ago, noting that stocks had failed to generate a positive return over the prior ten year period, I was delighted when I could find my clients a good quality bond that guaranteed a yield of 7% or 8% or 9%. Fear gripped the nation - the pundits talked as though General Electric ***...General Electric...*** might default on its obligations! At that point I recognized that despite the certainty of an eventual stock market rally, it made sense to lock in fat, recurring coupon payments from tame and unexciting fixed income investments. Today, after a 60% + rally for stocks in the past year, our clients' gain of 25%-30% may seem sub-par. I trust you will agree that only a nut case would have committed all their clients' money to stocks a year ago, and mine did not hire me to gamble in that way.

While I feel bullish about the current market, it is possible we are in the midst of a Secular Bear Market. Such a market developed after 1929. After the infamous Crash in October, 1929 the Dow failed to achieve its 1929 high of 381.17 until 1954. The next Secular Bear Market began in the inflationary '70's. Between 1970 and 1982, the market essentially went nowhere. Still, in the midst of these bearish periods for stocks, major rallies were enjoyed. Witness this quote from Newsweek's April 5, 1976 edition, exactly 34 years ago, during the bull rally that followed the worst bear market since the Great Depression:

"Common stocks are generally up about 70% since the lows of 1974. The 30-company Dow Jones index of industrial prices bounced through the magic level of 1,000. Share turnover sets daily records. Brokers, naturally are feeling better. Slowly their individual customers are being drawn back in. Some who had shifted into bonds at those 1974 lows have been asking anxiously whether it is too late to get back into stocks".[3]

The confidence generated by that bull rally proved to be short lived: by early 1978 the Dow was off 25%. In fact, a sustained bull market did not develop until 1982, six long years after the above words were written.

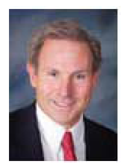
Informed by the lessons of history, I view current market activity with a wary eye. Many things could develop to deflate stock prices, perhaps for a significant period: the default of a marginal nation like Greece or of one or more of the United States might lead to a drying up of lending; a trade war with China would likely hurt a broad swath of American industry; the madness of a terrorist action against a major city or institution might send investors to the hills. But the biggest threat to a massive stock market rally would be a sharp rise of interest rates. Soaring interest rates could come about quite suddenly if foreign nations who bankroll our Federal government begin to sharply curtail their support or if inflation shows a sustained rise. But this day may be further off than many think. Asian investors are steadily shifting their ocean of dollars into the purchase of income producing businesses: oil companies, car companies, computer companies and agricultural ventures[4]. Foreigners may be nervous about keeping money in dollars, but there is no practical alternative that will produce income, except ownership of businesses and real estate. Gold Bugs want to find evidence of Asian buying, but there appears to be no stampede into a substance that, while a traditional store of value, produces no cash flow. Foreign investors still appreciate that the USA is the land of stability, where the rule of law, especially with regard to property rights, is among the strongest on the planet. An influx of foreign capital into U.S. domiciled businesses will accelerate, especially if the current stock market rally continues, and this could lead to considerably higher valuations for stocks in general. What could delay or prevent runaway inflation? Because we are using less energy, less labor and less material per unit of production, the United States is a highly efficient producer of goods and services. While it is true we cannot compete with dirt cheap Asian labor in many areas, when we combine Western technology with cheap imports, we will have a strong counterweight to monetary inflation.

As indicated in my blog post: (www.trustedfinancial.com) on March 23, 2010, I suspect that the current rally has ”legs”. Corporations have become far more efficient and their top lines are beginning to grow. In general, their balance sheets are the strongest in decades. Remember also, some $380BB of additional government spending is in the pipeline.[5] Then, there is the psychological aspect: as yet, the early stages of bullish euphoria, described in the 1976 article quoted above, are absent. No one is overly optimistic: many intelligent, capable people are still feeling cautious. Recall the phrase: “the Market climbs a Wall of Worry”? There are plenty of people still worried. I suspect this is good for the market. Most importantly, statistics suggest that individual investors continue to fight the last war, pouring money into fixed income investments. At some point, the individual investor will decide it is time to buy stocks. Who knows where the market could go at that point, but I suspect the old high of Dow 14,000 could be reached before this cycle is exhausted.

While optimistic, I choose to remain primarily realistic. We focus on buying great companies when available at bargain prices, a so-called “bottom up” approach. A pure Value investor would stop at this, but I’m no purist. With nearly four decades of non-stop market watching, I have a good deal of trust in my ability to read the tape. An eye on larger market performance and Mega trends informs the decision making process. Further, anecdotal evidence is also important: I know a wide spectrum of business people, most of whom confirm that “things are picking up”. There is a huge shift underway too: I perceive that our economy and our culture are in the midst of an economic revolution that in many ways matches in importance the conversion that occurred at the turn of the 20th century, as the US economy moved from one based on agriculture, to one more reliant on manufacturing and production of goods. Now that much in the way of goods production has shifted to low wage nations, we in North America are digging into our mental resources to find ways to squeeze more production out of fewer inputs. The "digital economy" that was so widely touted in the late 1990's is upon us. It is changing everything about communication in our lives. For example, the US Postal Service recently proposed ending Saturday delivery since the volume of physical mail (AKA "Snail Mail") has declined significantly as scanners and email are adopted to speed communication. There is, in other words less "friction" in the economy. The ability to report and share information from the remotest of locations, to make decisions and have them carried out almost instantly on the other side of the globe, is driving an explosion in productivity that may result in a sustained period of improved economic activity.

I may be embarrassed about my optimism six months or a year from now, but as stated, even during the dark days of the recent Great Recession, I believe there are always opportunities to increase wealth during this challenging time in human history, and I appreciate the opportunity to find them for our clients.

Sincerely,



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Footnotes:

1. April 5, 2010 ISM news release.
2. "Greed, for lack of a better word, is Good" Michael Douglas, as Gordon Gekko quoted in Wall Street ©1987 20th Century Fox
3. "Investment Secrets, by Paul Samuelson, Newsweek, April 5, 1976.
4. This week rumors indicated that Palm might be subject to a buyout by Chinese interests.
5. Source: www.recovery.gov