



Investment
Advisors

Steady as You Grow

Market Review and Update 2nd Quarter 2009

How much longer will it take?

One by one, the pieces are slowly coming together for a stock market turnaround. But we are still waiting on the all important “last shoe” to drop before we can turn wholeheartedly bullish on Stocks.

Compound Your Gains not Losses!

The old adage is to “buy low and sell high” right? Then what are you doing!? Market sell-offs are bad, but fixing these common investing mistakes will make sure that choices today won’t make things worse for tomorrow.

Mistake #1: You invested too aggressively for your age. Very young investors can invest most of their money in equities, since they have more time to make up for any losses. The same isn’t true for boomers, yet an alarming number of workers nearing retirement age are too heavily weighted in stocks. While virtually all assets classes (stocks, bonds, real estate etc.) were hit hard by this downturn, a proper allocation might have prevented an investor from losing as much.

Solution: Sit down with your advisor and make sure that you are in the right allocation. Taking into account your current financial standing, expected retirement date and tolerance for risk level.

Mistake #2: Forget to keep your plan in check. We all know it’s tempting to let your portfolio run full speed ahead when the market is really rocking.

But failing to routinely monitor your portfolio will make you more vulnerable to market whims.

Solution: Reset or reallocate your retirement plan on a quarterly or at the very least on an annual basis. In a rising stock market rebalancing will force you to do the unthinkable. Sell what is making profits and to prop up what is not. But by doing this it will ensure that your portfolio won’t be too aggressive when the next bear market strikes! Conversely, when equities are falling, rebalancing forces you to buy shares when prices are low.

By doing these simple steps it should help reassure you that you’ve done all you can to make sure that your Golden Nest Egg will not only survive but thrive in the next bull or bear market.

What is the next bubble? U.S Treasury Bonds the Biggest Bubble of All?

We've lived through some truly historic bubbles in recent years:

- The dot-com bubble was a doozy ...
- The housing bubble was even bigger, and ...
- Now we are wondering if we aren't dealing with a NEW bubble — a bubble in the market for long-term U.S. government debt, or “Treasuries” for short. We are not talking about short-term Treasuries or Treasury-only money funds. Those are securities with very short-term maturities — six months, three months, one month and so on. They're a great place to park your money for the ultimate in safety and security.

We are talking about long-term Treasuries — 10-year notes and 30-year bonds. They're subject to all kinds of long-term risks — currency risk for foreign debt holders ... inflation risk for domestic and foreign investors.

Right now, investors are dog-piling into long-term U.S. debt like never before.

We don't know how familiar you are with how bonds work, but that is literally unprecedented in terms of both magnitude and speed. Just consider:

- In mid-2003, the Fed was openly fretting about deflation. The federal funds rate was on its way to 1%. Bonds had what was then considered a huge rally — but it only came to 13.3% in two months.
- Immediately after the 9/11 attacks, bonds started rallying amid expectations the economy would slow. Then the government took the unprecedented step of cancelling 30-year Treasury bond auctions. The idea was to make bonds scarcer, causing prices to surge and long-term rates to fall. The “gigantic” rally that ensued? A gain of about 9.8% over the span of a month and a half.
- You probably remember the Long Term Capital Management crisis if you've been around the markets for a while. Back in 1998, Russia defaulted on its sovereign debt. That set off a massive liquidation of higher-risk debt and an enormous flood of money into Treasuries among investors seeking safety. But the total rally amounted to just 11.1% in two months.

Treasury bonds almost NEVER move this far, this fast. As for interest rates, which move in the opposite direction of bond prices, almost never fall this far, and this fast. If you lock in Long Term Bonds at these historically low rates thinking that you won't lose money, you will lose principal if you have to sell them prior to maturity.

2008: A Year For the Record Books

Asset Class	Total Return (%)	Context
Treasury Bonds	14	Best Since 1995
Municipal Bonds	-2	Worst Since 1994
Investment-Grade Corporate Bonds	-3	Worst Since 1994
High Yield Corporate Bonds	-26	Worst On Record
Small Cap U.S. Stocks	-34	Worst Since 1937
Large Cap U.S. Stocks	-37	Worst Since 1931
Real Estate Stocks	-38	Worst On Record
Foreign Developed-Country Stocks	-43	Worst On Record
Emerging-Market Stocks	-53	Worst On Record

Source: Ibbotson

6 Reasons why we may be at the bottom and a new BULL

1. The stock market always turns before the economy bottoms.

The stock market has a mind of its own, it's a leading indicator. Stocks historically kick into action earlier than the economy recovers, often 6 months ahead of the economy's bottom. Case and point, the month of March 2009.

2. Stocks make big money fast then go to sleep again.

Javier Estrada the finance professor of "Institute of Higher Business Studies" Business School recently released a study of the daily returns of the Dow Jones going back to 1900. He found that if you took away the best 10 days, two thirds of the cumulative gains produced by the Dow over the past 109 years would disappear. Conversely, had you sidestepped the markets 10 worst days, you would have tripled the actual return of the Dow.

3. No one can predict the next big move.

Markets are ruled by mobs of irrational investors who are all bad guessers. No one can predict in advance when those “10 worst” or “10 best” days will actually occur. Not on Main Street and certainly not on Wall Street. 75% of the time there will never be a rational explanation for big moves in stock prices. Market timing is a loser’s game.

4. Famous media-darling pundits are one hit wonders!

Why you ask? Well, our opinion is that the best predictors want fame in this backwards sort of way. They can be totally wrong 90% of the time so long as they are assertive and entertaining. The marketplace of ideas does not punish poor punditry. Few if any ever remember who got what wrong.

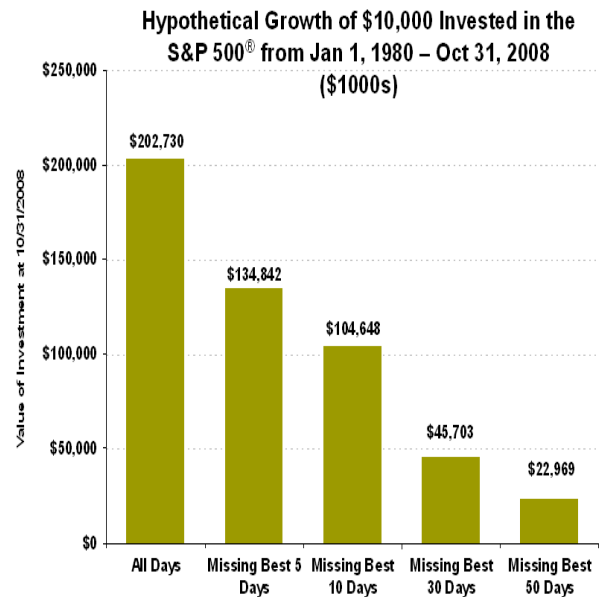
5. Even the best economists make huge errors.

Go back a decade to that classic article in BusinessWeek, “What do you call an Economist with a Predication? WRONG!” Four years later in the same publication, “So... I was off by a Trillion,” BusinessWeek punctuated the message, reporting on a Michael Boskin’s classic error. Boskin, a Stanford economist and former chairman of the Council of Economic Advisors admitted to a mistake in a paper that was submitted to fellow economists. Apparently a “key” term was left out. No real surprise there: Political ideologies often motivate “objective” economists.

Just to be clear the belief that you will know when to “get some skin in the game” is false. If you can predict the future then you have better odds picking the lottery numbers than you do the Market. If you get in the market and stay with your

retirement plan, the benefits will far outweigh the risk. Here is a chart that emphasizes the point.

Reason #6!



If you are waiting for the market to rebound before you reinvest, you have already lost. Market timing doesn’t ever win in the long run. Be safe and smart, get together with your advisor, get a retirement plan and stick with it. Now is the time more than ever to take advantage of something that you can have control over and that’s your Retirement nest egg.

What has history shown us?

There have been 13 bear markets (periods when the stock market declines by 20% or more from peak to trough) since 1926, an average of one every six years.

Down 52% at its trough in November 2008, the current downturn already ranks as the second-worst bear market ever, just behind 1929-1932.

However, the duration of the downturn so far is relatively short, only 18 months versus an average duration of 22.

The duration is particularly brief compared to prior severe market drops associated with economic recessions.

Recessions frequently accompany bear markets, coinciding with the six worst bear markets and nine of the 12 overall (prior to 2007).

Bear markets accompanied by recession have tended to be longer, all but one lasting 14 months compared to eight months or less for the three bear markets without recessions.

Every bear market is different, and the beginning of a new bull market is only known with the benefit of hindsight.

However, bear markets have inevitably given way to market rebounds:

The 12 months following bear market troughs have always seen well above-average performance, with one-year stock returns averaging nearly 46%.



Historical U.S. Stock Bear Markets (1926-2008)

Peak	Trough	Duration (Months)	Bear Market Magnitude	Recession During Bear?	1-Yr Return After Trough
9/3/1929	7/8/1932	34	-86%	Yes	124%
3/10/1937	4/28/1942	61	-60%	Yes	59%
10/9/2007	11/20/2008	14	-52%	Yes	?
3/24/2000	10/9/2002	31	-49%	Yes	34%
1/11/1973	10/3/1974	21	-48%	Yes	38%
11/29/1968	5/26/1970	18	-36%	Yes	44%
8/25/1987	12/4/1987	4	-34%	No	23%
5/29/1946	6/13/1949	37	-30%	Yes	42%
12/11/1961	6/26/1962	6	-28%	No	33%
11/28/1980	8/12/1982	21	-27%	Yes	58%
2/9/1966	10/7/1966	8	-22%	No	33%
8/2/1956	10/22/1957	14	-22%	Yes	31%
7/16/1990	10/11/1990	3	-20%	Yes	29%
Average (excluding 07-08):		22	-39%	-	46%

Past performance is no guarantee of future results. Recessions are defined by the National Bureau of Economic Research. Past performance is no guarantee of future results. Stock returns represented by S&P 500 Index returns. You cannot invest directly in an index, see appendix for important index information. "Peak" marks the beginning of a bear market, "trough" marks the end of a bear market. Source: ISI, Bloomberg, National Bureau of Economic Research, Haver Analytics, FMRCo (IARE) as of 12/31/2008.

New this quarter:

Ask CPS FAQ:

Q: CPS, is the sky really falling?

A: Depends on which TV program or Newspaper you are reading at the moment. But if you just step away for a moment and look at things with your own eyes and mind you will see that things are not as grim as some portray it as.

Q: I own long Term Bonds. Is now the time to sell those?

A: Long Term Bonds have risen in price; the likelihood of further increases and lower yields is very low. Our recommendation is to sell and reinvest in shorter maturities.

Disclaimer: This is not a recommendation to purchase or sell any of the securities mentioned above. Every client is managed individually based on his or her risk tolerance. Past performance is not a guarantee of future results.

Thank you for your many kind referrals!

Credits: Richard E. Brand Profitable Investing; Walecia Konrad Money Magazine; Mike Larson the Market Oracle Chas Smith CPS Investment Advisors; Paul Farrell MarketWatch; Frank Ashley CPS Investment Advisors; Bryan Mau, CPS Investment Advisors