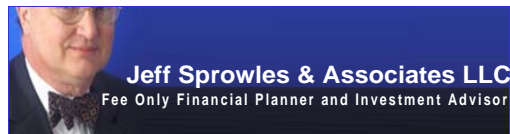


VOLUME 4, ISSUE 6



The (not so) Almighty Dollar

JUNE 16, 2010

MONTHLY NEWSLETTER AND UPDATE

Dear Valued Clients, Friends, Professionals and Freeloaders,

As we near the mid point of 2010 I find myself with mixed feelings about the future.

On the positive side of the ledger short term indicators are encouraging. We have moved our stock target from 75% to 87.5% of target. In September of last year indicators turned down as did our stock target. The stock market had a very strong first quarter of 2010. This generated feelings of doubt followed by indecision that was most unpleasant.

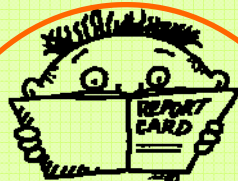
Indicators are strong and I now feel more confident about moving into stocks, especially emerging markets, than at any time since March of 2009.

On the negative side, my concerns about long term prospects are no secret to regular readers of this newsletter. Recently, these thoughts were provoked by an article by Paul Volcker in the June 24, 2010 edition of *The New York Review of Books*. Mr. Volcker is on a short list of people I respect. The title of the article is "The Time We Have Is Growing Short."

Mr. Volcker summarizes the long term problems we face in a succinct and cogent way that is more effective than the jeremiads I have written. The title is depressing. The article is more so. Perhaps I should look for cabaret, alcohol and vice inspired by the Weimar Republic of the late 1920s.

Sincerely,

Jeff Sprowles, CFP®



See inside for the June 2010
Jeff Sprowles and Associates, LLC

REPORT CARD



Market comments

Stocks are currently very attractive because expected 2010 earnings make their yield so much higher than interest rates.

Historically, the third year of a first term president generates above average returns in U.S. stocks. We are only six months from 2011. Believing as I do that we are near a tipping point in a sea change in investments that began around 1980 I no longer put much value on most historic trends. But, I think the third year in the presidential cycle is a precedent that is worth retaining. In spite of the poisonous political climate and the breakdown of our system of government I think the President Obama has the capacity and the will to juice the economy to help his bid for reelection.

Emerging markets have been trashed so far in 2010 but their fundamentals appear sound. China in particular appears very attractive.

Late Quarter Update

- S&P 500 – domestic large cap
 - 3/31 to 6/15 (4.23)%
 - Trailing 1 year 23.23%
- BarCap Intermediate Gov Bonds
 - 3/31 to 6/15 2.22%
 - Trailing 1 year 5.54%
- 90 Day U.S. Treasury Bills
 - 3/31 to 6/15 0.03%
 - Trailing 1 year 0.11%
- MSCI Emerging Markets
 - 3/31 to 6/15 (5.18)%
 - Trailing 1 year 24.86%
- Jeff's Current Stock Outlook:

87.5% of Target*

* "Target" refers to the percentage of a client's overall portfolio that should be in stocks. If a portfolio has a 60% target, at 75% our goal would be to have 45% in stocks at the moment.

OUT OF FAVOR

EFA – iShares EAFE Index

The EAFE index is the benchmark for developed nations. I am selling what little I have left. The index is composed of companies in 22 developed nations. Of the component countries, the few have good long term prospects such as Australia (7%), Norway (1%) and Singapore (1%). About 24% of EFA consists of Japanese companies, some of which are excellent but long term prospects for the Japanese economy are grim.



Certified Financial Planner



REPORT CARD AND UPDATE

It is only 18 months since the failure of Lehman Brothers, the historic breakdown in money market funds and the panic in financial markets. It is 18 months but I feel as if it happened 10 years ago.

On October 3, 2008 we published a special issue of *The (not so) Almighty Dollar* to address the crisis and suggest what we were doing about it and how to approach the future. If you did not save your copy of this *opus* you can look at a copy on our web site. It is Volume 2, Issue 7.

In that issue I suggested 6 possible results of the financial crisis and made 12 recommendations about investments to act on those conclusions. Here is how things stand after 18 months.

POSSIBLE IMPACT OF FINANCIAL EVENTS OF 2008

1. *The decline of the United States as the dominant global economic power which probably started in the last few years will accelerate.*

This is a long term prediction but 2009 does not contradict it. The average GDP growth of the U.S. from 2007 to 2009 was 0.0%. Average GDP growth in China was 10.2%.

2. *The dollar is more likely to decline against other currencies than not.*

In the short term I couldn't have been more wrong. The Euro has declined significantly as Greece and other EU members' fiscal problems turned out to be worse than ours. Currencies in emerging markets have not prospered either as concerns about safety have spurred global interest in the dollar.

3. *The United States is likely to have some hard times for awhile.*

Unemployment hovers around 10%. This is nowhere close to the 30% of the Great Depression. Nevertheless, although our economy shows signs of recovery, most economists think unemployment is not going to improve dramatically for some time. Our economy needs to be driven by something other than consumer spending and an overemphasis on real estate. To date there are no substantial signs of such changes.

4. *The role of large companies is probably going to be gradually taken over by mid and small sized companies in the United States.*

It is too early to tell if this is accurate or not. Small and mid cap indices did better than large caps since 2008 but this is to be expected at the start of market cycles. The kind of fundamental change I predicted won't be conclusively proven for at least a decade.

5. *Interest rates are likely to go up.*

This hasn't happened yet. I still am not buying longer bonds.

6. *There is danger of inflation in a low growth environment.*

This hasn't happened. Six weeks after I wrote this prediction Paul Krugman said he didn't think inflation was going to be a problem for at least a year or two. He thought the Fed would reabsorb the stimulus cash that was one potential inflation trigger in good order. So far he is correct.

INVESTMENT IMPLICATIONS OF JEFF'S OUTLOOK

1. *International equities will be better than domestic.*

In 2009 this was excellent advice. In 2010 it has not been so far. My current allocation to international equities is 55%.

2. *Holdings in European securities protect against the dollar against the Euro.*

This was great in 2009 but has since shown to be completely incorrect. Greece and other members of the European Union had more serious fiscal problems than the U.S. I no longer am buying Euro based securities and will eventually sell those owned by my clients as they recover. I now use Australia for developed nation protection against the dollar.

3. *Emerging markets are attractive.*

This was terrific in 2009 and terrible in 2010 to date. There is no fundamental change to this recommendation.

4. *Emerging markets are volatile and should be sold periodically.*

This is still our policy but we didn't see strong enough sell signals to reduce our holdings in late December so we rode our emerging market holdings down in 2010.

5. *When possible buy emerging markets in IRAs.*

This is still a good recommendation.

6. *Alternate energy is a good growth sector.*

In the short term this has been absolutely incorrect. Alternate energy is one of the poorest performing sectors in the market since October, 2008. I continue to think this an attractive sector and am buying alternate energy at the moment.

7. *Alternate energy is a buy and hold.*

We have not changed this recommendation.

8. *Larger companies are less important so we will buy small and mid caps on a buy and hold basis.*

Our mid and small cap holdings have done very well.

9. *There will be an allocation to the broad domestic stock market.*

We have done well with IWV – iShares Russell 3000. We are selling our large cap value holdings and probably won't be buying anymore of it.

10. *We will do some timing with IWV with commodities.*

We are no longer using short term timing tools in this way. We are replacing this concept with a broader procedure that is more promising.

11. *Commodities ETFs are large enough to be safe.*

This is true but we no longer use commodities ETFs for performance reasons.

12. *Commodities prices have low to negative correlation to U.S. stocks.*

Since October 2008 commodities have not provided enough correlation benefit to warrant their use in our investment allocation any longer. The ETFs behind the discussion in points 10, 11 and 12 were down more than the S&P 500 in the fourth quarter of 2008 and almost as much in the first quarter of 2009. We are going to restrict our investment in commodities to gold bullion using GLD.



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