



Jeff Sprowles & Associates LLC
 Fee Only Financial Planner and Investment Advisor

Volume 4, Issue 7

The (not so) Almighty Dollar

July 16, 2010

Monthly Newsletter and Update

Dear Friends, Clients and Others,

It has been a strange year in investments. The first quarter generated strong stock returns which I didn't think would happen. The second quarter was terrible taking year to date numbers negative in line with my expectations. My favored long term stock sectors of emerging markets and alternate energy did especially poorly through June 30th. The June quarterly performance statements were not pleasant.

The numbers in the box to the right show a dramatic rebound in the last two weeks. Inflation for the trailing one year is 1.1%. The oil leak in the Gulf has stopped for the moment. I was in Manhattan yesterday and hem lines appear to be trending higher. This bodes well for stocks.

On the other hand, unemployment is high, it is unlikely that the U.S. economy is going to grow quickly for some years and the political climate is poisonous which bodes ill for the future. The more I delve into what happened during "the melt down" the more I am convinced that we are in the midst of a sea change in how markets behave. Perhaps I should start taking some strong medications. On the other hand, it is a beautiful day and nobody in my family is seriously ill. Things could be worse.

Best regards,

Jeff Sprowles, CFP®

Early Quarter Update

- S&P 500 – domestic large cap
 - 6/30/ to 7/15 6.46%
 - Trailing 1 year 19.97%
- BarCap Intermediate Gov Bonds
 - 6/30/ to 7/15 0.19%
 - Trailing 1 year 6.06%
- 90 Day U.S. Treasury Bills
 - 6/30/ to 7/15 0.01%
 - Trailing 1 year 0.11%
- MSCI Emerging Markets
 - 6/30/ to 7/15 6.75%
 - Trailing 1 year 22.03%
- 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.

WHAT IS NOT CHEAP?

GLD — gold bullion ETF

Gold is popular at the moment. Over the past five years GLD is up 183% when the S&P 500 was negative 3.25%.

I have never liked gold as an investment. In recent weeks I have started to think about adding it as a category in my asset allocation matrix to increase diversification. Therefore, it is likely that GLD will not do well over the next year. Also, Glenn Beck recommends buying gold. For those wanting a more rational reason to sell GLD, it is somewhat above its 200 day moving average.



Certified Financial Planner

MARKET COMMENTS

It is likely that I am a little early in increasing my stock target to 87.5%. The P/E is still below 15 based on estimated 2010 earnings. The implied yield of stocks compared to that of the 5 year T-Bond is still way out of whack. This suggests some combination of higher stock prices, higher interest rates or higher corporate earnings. I suspect all three will happen.

On the other hand, freight traffic on the Norfolk Southern has pretty much disappeared. We are still six months from 2011 which is likely to be a good year for stocks. The number of stories I hear about people losing jobs is higher than the number about people getting new jobs, promotions or raises.

What to do about cash is an ongoing problem. Institutional money market funds don't pay anything. Short term CDs and bonds are not much better. I am extremely reluctant to tie up money in fixed income vehicles with maturities of longer than two years because I think it likely that when interest rates turn, they will go up quickly.

It is a challenging time to be an investor or an advisor. I have confidence in investments in emerging market economies and alternate energy companies. I am confident that stocks are likely to be more volatile than they were before 2000. This suggests that planning cash flow and educating clients about risks, rewards and time frames is increasing in importance.

~ FINANCIAL FABLE ~

How We Invest Based on Generations – Horace Lytton and Edward Walpole

Horace Lytton was born in 1947. His nephew, Anton Walpole was born in 1983. Recently, they inherited \$500,000 each from Horace's sister and Anton's aunt. Their needs are different for many reasons and how they invest is different as well.

Apart from their time frame and where they stand concerning life needs, some of their investment goals are shaped by when they were born and how they view the present and future. Here is a chart that suggests some of the reasons for their differing outlooks.

	<u>Horace</u>	<u>Edward</u>	<u>NOW</u>
Year of birth	1947	1983	
U.S. population when born	144,126,071	237,923,795	309,751,640
Median age	24.4	32.7	36.7
Goal at age 5	Policeman/cowboy	Policeman/cowboy	
Goal at age 10	Professional baseball	Professional football	
Goal at age 15	Astronaut	Rock star	
Goal at age 20	Doctor/lawyer, etc.	Better video game system	
Goal at age 25	Buy a house/better job	Graduate from college	
Goal at age 30	Have children	????	
Goal now	Retire before age 70	Keep a job	
Parents' expectations	Doctor/lawyer, etc.	A happy contributing citizen	
TVs and channels in childhood	1/3	3/30	
Preferred recreation in childhood	Informal sports with friends	Video games/TV	
Parent's fear in your childhood	Polio	AIDS	
Fear in adolescence	Nuclear war	Losing computer/electronic privileges	
Fear in high school	Grades/college acceptance	College/social acceptance	
Fear in college	Getting drafted	Unemployment	
Fear now	Running out of money	Living at home at age 40	
S&P average return ages 10-25	12.0%	8.7%	
U.S. role in the world at birth	Becoming a super power	Dominant in all ways	
U.S. role in college	Dominant economically	Dominant but slipping	
U.S. role likely in retirement	Big but declining	Big but behind China and others	
Return expected on investments	10%	No idea	
Likely return on investments	6%	6%	
Dominate form of savings at the start of career	Pension	401(k)	
Health insurance at start of career	100% employer	Expensive IF available	

1947
1983
2010



The investment environment is the same for both investors. Their risk tolerance and outlook for the future are different. Their reliance on the funds for living expenses and when they need it will be different. As I wrote this chart I think it has more to do about the future of financial markets than about Horace and Edward.

For their recommendations, I will use a financial model to forecast how much they will need to take from their portfolio and when. I will use this to help determine the amount we need to invest in stocks. Given the likely increase in volatility of stocks and the uncertainty of interest rates and currencies, there will be a lot of diversification, a lot of monitoring of the portfolio and a lot of education about what we can expect.

Jeff Spowles and Associates, LLC

Fee Only

Fee Only Financial Planner and Investment Advisor

jspowles@spowles.com ★ (o) 215-310-9693 ★ (c) 215-630-2621 ★ (f) 215-693-6233

www.spowles.com 945 Langhorne - Yardley Road Langhorne, PA 19047

