



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

The (not so) Almighty Dollar

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Monthly Newsletter and Update

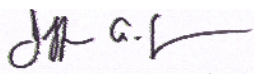
Dear Valued Clients, Professionals and Friends,

What a rotten month for the USA. Since my last epistle, our elected representatives in Washington have hit new lows in short sighted incompetence. But, until the debt ceiling deal was announced, Wall Street appeared to be unconcerned. The stock market and bond markets were steady with no sign of trouble.

After the deal was announced the markets behaved less sensibly than the House of Representatives. Stocks went up and down rapidly. The graph looks like a cartoon roller coaster. It has been said that the stock market is driven by either fear or greed. This is starkly evident in August, 2011. As I write the market is down more than 8% in two weeks.

One would think that Wall Street is telling Washington that they didn't believe our representatives could behave so stupidly. Standard & Poor's rating agency said so explicitly by downgrading our bond ratings. Yet, the bond market has rallied. One would think that stocks elsewhere in the world would be more attractive than those in the U.S., but emerging markets were hit harder than domestic stocks. Aye, Dick Deadeye, it is a queer world.

Sincerely,


 Jeff Sprowles, CFP®



Certified Financial Planner

Mid Quarter Update

- S&P 500 – domestic large cap
 - 6/30 to 8/15 **-8.57%**
 - Trailing 1 year 13.76%
- BarCap Intermediate Gov Bonds
 - 6/30 to 8/15 2.86%
 - Trailing 1 year 4.25%
- 90 Day U.S. Treasury Bills
 - 6/30 to 8/15 0.01%
 - Trailing 1 year 0.13%
- MSCI Emerging Markets
 - 6/30 to 8/15 **-11.09%**
 - Trailing 1 year 3.23%

Market Comments

In spite of the volatility, I think the market correction is an opportunity to buy stocks. Domestic stocks are trading at less than 13 times reported trailing twelve month earnings. In spite of lackluster freight traffic on the Norfolk & Southern, I don't think we are moving towards a double dip recession.

Even if domestic stocks are not as cheap as I think they are, 80% of my stock target remains in companies that measure profits in currencies other than the U.S. dollar. I think emerging markets are very attractive. China and Brazil have been beaten down for reasons I have not been able to isolate. On a long term basis, both are extremely attractive. A number of ETFs in developed nations are attractively priced at the moment, including Norway, Switzerland, Netherlands, Singapore, Taiwan and Sweden.

Regarding fixed income see the article at the bottom of the second page about emerging market debt. With the Fed offering low cost money to banks and corporate America, there is little hope that rates on insured certificates of deposit or corporate bonds will improve for a year or more. The yield on ten year government bonds is under 2.5%. Some of the inflation protected treasuries (TIPS) are trading at negative yields. Institutional money market funds are not paying anything.

One cannot look at newspapers without seeing many advertisements to purchase gold. The last time such ads were ubiquitous was back in 1980 shortly before gold dropped from \$900 per ounce to around \$300 where it stayed for 20 years.



Jeff's Blog

happy thoughts



Last month I promised to back off this soap box and turn the space over to Dr. Bruskin. Eric is in the throes of a special project and we agreed to postpone his contribution until next month.

At the end of July, one of my bridge playing cronies sent a heartfelt request to a list of friends and colleagues suggesting that it was important for everybody to write their congressmen and senators to urge a swift resolution of the debt ceiling impasse. My friend is a surgeon, and several doctors were on his e-mail list.

One of his doctor friends wrote back a patronizing e-mail chiding the author for his naïveté and political gullibility. The response was loaded with half truths, straw men and unproven theories stated as facts. I felt compelled to take some time to address some of the more egregious whoppers. This led to several e-mails back and forth involving two doctors, a dentist and your faithful servant.

I probably would not have written my representatives had I not received the original e-mail. But I did and I am glad to have done so. I got a reasonable reply from Congressman Michael Fitzpatrick, which made the exercise in communication with my representatives worthwhile.

The interaction with the “conservative” doctors was more distressing than useful. It is unlikely that anything I write to them will change their minds. So far nothing they have written approaches a level of cogent thought that might change my conclusions about the world. In the meantime, if I am in an accident at the wrong place and time I could find myself on an operating table with the surgeon wielding the scalpel thinking, well let’s see if he is so smart with his ear sewn on backwards. For that matter, are their surgical skills and medical knowledge as flawed as their political conclusions?

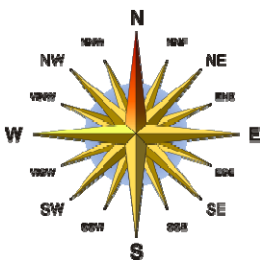


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Fixed Income



In an attempt to calm the markets the Federal Reserve guaranteed that interest rates would stay very low through the middle of 2013. How should we react to that? On the one hand, cheap money spurs economic growth. On the other hand, we have had cheap money (cheap compared to historic averages) since 2001. After 10 years are there industries still sitting on their hands waiting for assurances that they can get low cost financing before expanding? Is our economy already not pushing the envelope on productivity levels?

From an investor’s point of view, the Fed’s statement encourages one finally to deploy cash that is not destined for stocks. After much discussion with Eric and a substantial amount of due diligence on his part, we are beginning to allocate portions of fixed income portfolios to ELD and EMLC. These are ticker symbols for exchange traded funds that invest in bonds of emerging market countries in local currencies. Both have durations of under 5 years and current yields above 4%. Because they are not hedged, if the dollar declines against their currencies there will be an additional benefit. Naturally, these also have risk the other way. In the event the U.S. dollar strengthens against the Brazilian Real, for example — both ETFs have about 10% in Brazilian paper — there would be a currency penalty if the securities are sold.

