

After a bad first quarter, April and May were positive months for the stock market with the S&P 500 increasing over 6%. The month of June, however, proved to be one of the worst in history with the index down 8.4% for the month. All told, the S&P 500 decreased 2.7% for the quarter but it feels much worse given the speed and magnitude of the June decline. While first quarter GDP numbers came in at +1%, indicating that we are technically not in a recession, the U.S. economy continues to struggle with the combination of three strong forces: the downturn in housing prices, the credit crunch and rising energy prices.

Since the market hit a high last October, the Dow has declined 20%, the level at which a bear market is usually proclaimed. Experienced investors know intellectually that investing in the stock market has its ups and downs and this is a natural part of the cycle. Markets historically have fallen and then recovered to reach new heights, but the process of getting there is hard to live through day to day.

During times like this, it is important to have a solid asset allocation strategy, remain disciplined and not panic. Timing the markets is not a reliable way to invest as it requires you to be right twice about when to get out and when to get back in. This simply does not work in the long term. While exiting the market may avoid some pain if the market falls further, one will likely miss a good portion of the upswing when it does occur. You have all seen the statistics of how much less a portfolio grows if it misses just a handful of the best performing trading days over time. Despite all of this theory, you may still wonder at night which should it be...liquidate everything and hide your cash under the mattress or start buying up all of the equity bargains out there right now? The answer is neither. It is important to remember that successful investing requires patience and perseverance. Stay focused on your long term goals rather than on short term fears.

At Walden Capital, we build portfolios based on the time tested investment principles of asset allocation and diversification. As always, we are working hard to protect the assets you have entrusted to us. While your accounts are down year to date, most of the decline came during the first quarter, not the second. Some of the rebalancing we did earlier this year helped the performance. Allocating assets to a commodities real return fund helped steady the portfolios a bit as this move took advantage of the spike in commodities prices and provided some hedge against inflation. Remember that the concept of diversification is to mix assets that react differently to the same economic event. This sector exhibits very little correlation to the U.S. stock market and therefore provides diversification benefits over time.

Given all this uncertainty, I suggest that it is a good time to focus on the things you can control. I am referring to some of the financial planning issues we all face. When was the last time you reviewed your will? If it has been more than five years or you have had a change in your personal or financial situation, it is a good idea to consult with your estate attorney to ensure that the provisions of your current will still accomplish your wishes. Make sure that your accounts are titled correctly and your beneficiary designations are up to date. How about insurance? Are you adequately insured for life and disability? Maybe your term policies are expiring but you still have insurance needs. How is your cash flow? Are you saving and spending the amounts we projected for you to meet your long term goals? Are you taking full advantage of the tax-deferred savings vehicles available to you?

If you want to discuss any of these issues further, please feel free to call me. In the meantime, enjoy the sunshine of summer!

