WaldenCapital
ADVISORS

July 2009

While running near the beach last weekend, I thought about how happy I was to finally see the sun and feel the heat of summer. For so many weeks, the calendar said it was summer but the wet weather made me uncertain that it actually was. Was all the rain finally gone? Was summer really here to stay or would we revert back to those damp days?

I began thinking that my uncertain thinking over whether summer was here to stay was similar to my thoughts about the market rebound. We finally saw a big jump in the market, with the S & P 500 climbing over 36% from its low on March 9. On some of those summer days, just when the sun started peaking through the clouds, the rain came again. Was this the beginning of the recovery or will the market retest the recent lows? There have been numerous economic measures reported recently that are still negative but the declines are not as bad as they had been in previous months. We hold on to our hope that the recovery is coming, that the economy has bottomed, that we will emerge from the recession by the end of the year, that the sunshine of summer will finally be here to stay.

This is the question everyone wants answered – when will things get back to normal? But what is the "new normal"? Certainly, not what the old normal was. Our world was overleveraged. What will be the new level of consumer spending and leverage – certainly most would agree that it will be significantly reduced from years past. The process of working back up to the old levels will take some time. Companies now have excess capacity and consumers, who account for 70% of GDP, are spending less and saving more. It will take time for the spending levels to reach our productive capacity again. This will, in turn, slow corporate profit growth in the near term.

As a result of this adjustment to a "new normal", we are cautiously optimistic about the short term. Due to the coordinated actions of governments and central banks around the world, the worst appears to be behind us as the risk of a complete systemic meltdown has dissipated. In the period ahead, we will continue to experience challenges in the economy and financial markets. Over the mid to long term, however, there are positives. Inventories will exhaust and new production will commence. Consumers will feel better about spending, especially once their debt levels are under control and job losses decline. The financial system will be better regulated and banks will be healthier. New entrepreneurial activity and technology will thrive once again.

Now is the time to think about your financial and life goals, time horizons and risk tolerance in light of what has occurred over the past year. If you are a long term investor and are comfortable with your original target allocation, I am recommending dollar cost averaging back into the market over a period of months. On the fixed income side, we are leaning more toward corporate and municipal bonds relative to government bonds at this time. Overall, we believe that a diversified portfolio with certain tactical shifts will prove to be successful over the long term.

As always, please feel free to call with any questions you may have. May the remainder of your summer be sunny!

Jill

TWO BALA PLAZA, SUITE 300 | BALA CYNWYD, PA 19004 | TEL 610 660 7718 | FAX 610 660 0172 | WWW.WALDENCAPITALADVISORS.COM