Second Quarter 2010 Commentary

The second quarter, and the first half, finished with less than inspiring performance. In fact, we gave up the gains of the first quarter and have turned negative for the year. From our perspective, not much has changed in the world.

Unemployment figures are still about where they were six months ago. Gross Domestic Product (GDP) is still *positive* and Europe still has the same debt issues they did at the beginning of the year. Don't mistake the fact that the economy is still weak. But that does not mean it is dead.

Unfortunately, the bubbleheads on the idiot box are busily beating out the death march for the world economy each day. If you listen to enough of it, it becomes rather discouraging.

Well…..what if we had some good news?

What if we told you that the markets were actually up 15%? Yeah, sure, that would be great.

If that puts you in a good mood, then how would you feel if we told you the financial markets are up 47%?

Wow, 47%. That would be fantastic!

The truth of the matter is that all of the above are true—it is just a matter of perspective.

Sure, over a random six month period the stock market is down. ***However, over the past twelve months the market is up 15% and since the March 2009 lows the market is up 47%.***

For most people, that puts a completely different light on things. It also reminds us that the stock market is a fickle beast with very odd short term results. However, if we stretch our time frame a bit, things have a way of looking much better.

We should also be reminded that the stock market does not go up (or down) in a straight line. There are lots of jagged ups and downs.

In fact, ***with a one year time horizon, the vast majority of your total return comes from completely random fluctuations*** in price (the emotionality of the day to day). More importantly though, ***at a five year time horizon, 80% of the total return from an investment is generated by the growth in the underlying cash flow*** (a key measure of profitability). Again, time is your friend. If you have a short time frame your stock market returns will be quite random. Longer term, the true value of a business is the compilation of its long term earnings.

As we have always stated, the stock market is not for everyone—and certainly not for anyone with less than a ten year time frame. So if you don't want to be a stock market investor, what are your options? Sadly, not much.

Currently, ***a six month jumbo CD pays a meager 0.4%.*** Worse yet, a ***ten year US Treasury bond set a record for yielding less than 3%!***

With interest rates at record lows, if you can stand the volatility of the stock market, we think that Clorox with a 3.5% dividend, McDonald's with a 3.34% dividend, Proctor & Gamble with a 3.21% dividend or Philip Morris with a 5.1% dividend are far better ways to provide income and long term growth opportunities. Although these companies are just a few examples, they help to get the point across—***large blue chip multi-national companies offer better cash flow and better value than just about anything else. The only catch is that you have to incur the volatility***.

Finally, as the second quarter comes to a close, we look forward to celebrating the 4th of July. This is a wonderful opportunity to spend time with family and friends enjoying the fact that our nation, despite certain short comings, is the best game around. With that in mind, take the time to enjoy our freedoms and thank those whose service and sacrifice provides these invaluable benefits.

Sincerely,

Dave Sather, President
CERTIFIED FINANCIAL PLANNER™

Warren Udd
CERTIFIED FINANCIAL PLANNER™