

MARKET UPDATE NEWSLETTER

Good Month, Bad Quarter

The broad US equity markets began the month of March with performances similar to what we experienced in January and February, which is to say, down. This downward trend came to an abrupt end on March 9th with sentiment changing for the positive, and equities rebounding to the likes we have not seen since the 1930's. Markets around the globe, such as Brazil, Russia, China, et al., rebounded as much as 20%. In fact, at one point the NASDAQ market was positive for the year! This type of quick, violent, and large market rally is common within bear markets. They are often difficult to explain, and even more difficult to predict when they will occur. While the month ended on a muted note, the S&P 500 enjoyed a monthly gain of 8.76%. Simple math tells us that a rally of 8.76% coupled with the -18.18% S&P 500 return through the end of February still leaves us in negative territory. For the year, S&P 500 is down -11.01%. The old adage that declines hurt more than rallies help still rings true – thus, *good month, bad quarter*. We are beginning to see progress, leadership, and clarity in solving the financial crises that have haunted the markets for the past year and a half. The markets enjoy this clarity, as do we.



INVESTMENT OUTLOOK

Cash / Stable Value

- Still maintaining high levels of cash

Bonds

- Diversified from ultra-safe to high-yield
- Cautious of Treasuries for the long-run
- Positive on convertible bonds at the right price
- *Considering Inflation-Protected Treasuries (TIPs)*

Stocks

- Still cautious of stocks
- Utilizing covered call strategies to hedge
- Cautious of international stocks
- Positive on China, Brazil, and Canada
- Avoid Russia, much of Europe, the U.K., and Japan

Other Asset Classes

- Positive on Gold and Silver
- Positive on alternative energy stocks
- Positive on energy trusts
- *Negative on the Yen currency*

Italics denote a change from last month

Inflation in our Future?

Over the past few weeks the forecasts of future inflation are beginning to percolate the newswires and headlines. This theme took center stage following an historic decision by the Federal Reserve to engage in "quantitative easing" to fight deflation. Very loosely defined, quantitative easing is when the Federal Reserve increases the money supply, basically "printing" more money. This effort was initiated by the decision to provide an additional \$1 trillion into the financial system to purchase Treasury bonds and mortgage securities. The goal of these activities is to encourage economic activity and stave off deflation by lowering interest rates, including rates on home loans. We see this as an opportunity for clients to refinance home mortgages at near historically-low rates.

On the flip side, a risk of quantitative easing is the potential for higher future inflation. The common definition of inflation is "too much money (spent) chasing too few goods." Thus deflation can be described as "too little money (spent) chasing too many goods." Once these policies take full effect, it is a reasonable expectation that higher than normal levels of inflation could occur. Inflation may not be experienced immediately, but it is important to recognize the possibility of future inflation. It is wise to understand how inflation impacts portfolios and skews real return expectations.

Quick example – if you have a CD that is providing a yield of 3% annually and inflation is reported to be 6%, you have a real return of -3%.

Historically, it is expected that during times of high inflation the following will perform well; stocks, precious metals, oil, TIPs, and other raw materials. Conversely, bonds, cash, and CDs tend to underperform. In conclusion, it is wise to know what you own and how you expect it to perform relative to inflation.

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401K: What should you do now?

Most 401(k) participants will soon receive their month-end or quarterly statements. The stock market has recovered well during March; however this first quarter of 2009 has been nothing short of horrible. Whether you choose to ignore your statement or confront it head-on, the stress and fear it creates is real and everyone at some point wonders "What should I do now?"

We all react differently to material changes in our investments. Some take action; either seeing this as an opportunity to take advantage of, or a crisis to be avoided. Others feel overwhelmed and do nothing. Some have even stopped contributing altogether.

Regardless to which of those best describes your reaction it is not too late to take some time to properly look things over. The following 4-step process is one that everyone with a 401(k) plan can use to help them clearly think through their decisions.

Assess the Damage

As much as it may hurt, you actually need to look at your statements. Identify how much you have and what you are invested in. Which investments are available to you? Many companies update their plans frequently and there may be new investment choices. Take some time to understand how your plan works, what options you have, and how your portfolio is allocated.

Assess your Assumptions

Expectations for your financial future are based on certain assumptions. Many of these assumptions may need to be adjusted, such as stock market performance, your ability to save regularly, and your desired retirement lifestyle. As your assumptions change your goals may need to change too. How have these assumptions changed? Are your retirement goals still within reach? If conditions worsen, will you still be on track?



Create an Actionable Plan

Creating a realistic plan will dramatically increase the likelihood that you will achieve your financial goals. Take a look at the three factors you can control: your retirement savings, your retirement date, and your retirement lifestyle. You can either save more towards your goals, push your retirement date out further, or adjust your retirement lifestyle. Which factor is most important to you? What adjustments to these three factors will create the most ideal scenario for you?

Take Action

Start making those changes. Small changes made more frequently are easier to digest and more sustainable in the long run than a drastic overhaul. Some triage is good now, but we recommend that people look at their investments and their financial plan more often. The average family spends more time planning their summer vacation than they do planning their financial future.

During this review process you may find that you are not off-track as much as you think you are. You'll eliminate much of the stress and fear that seems to surface when dealing with the stock market. You'll feel empowered for taking control of your financial future. You'll just plain feel better.

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