

# Financial Common Sense

Insights for Plan Participants

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*Financial Common Sense* addresses issues facing today's investors. We are committed to an established investment philosophy and are passionate about helping our clients achieve their investment goals.

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## Market Commentary by Craig Buckhout

### **Fear Returns to the Market – Good for Investors?**

First quarter stock market gains were erased during May and June leaving values well below the high water mark reached in the fall of 2007. As the chart shows, large-cap stocks (S&P 500) have lost nearly 10% annually over the past three years. Markets reacted to increasing uncertainty and unfavorable economic news and reversed the trend of the previous four quarters. One-year returns reflect the substantial improvement from the March 2009 trough but year-to-date returns for stocks are in the red.

### Signs of fear

I love the drama in this paragraph from a recent *Wall Street Journal* article:

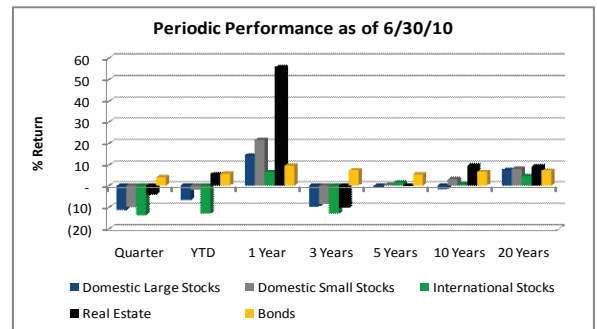
*Volatility returned to global financial markets with a vengeance in the second quarter, sending investors fleeing from stocks worldwide and driving them into defensive investments, especially U.S. Treasuries and gold.*

Did I miss something? Should I have known enough to get 'defensive' last quarter? First let's think about this quote for a moment. The issuance and redemption of stock for major companies over the past six months has been trivial, so investors collectively did not 'flee' the stock market – the ones who were scared just sold their shares to some other investor...at a much lower price than they could have three months ago.

So what did happen? Well it sounds much less dramatic – events such as the Greek debt

## Risky Business by Anthony Farella

After a pretty robust recovery in 2009 and 2010, the stock market took a dive in the last two months. The talk of a "double-dip recession" is reaching a fever pitch. A search of the term "double-dip recession" at Google News generates over 7,000 news articles. Media pundits point to the recent market downturn as evidence of a new recession.



crisis, stubborn joblessness, increasing deficits, and the BP oil spill raised concerns about economic recovery and future growth. These concerns, and increasing uncertainty, caused the market's calculation of current stock values to decrease, and the value of Treasury bonds to increase.

Will stocks decline in value further next quarter because the recovery has stalled? Maybe...of course this potential outcome has already been considered by market participants and is built into today's prices. If signs of a double-dip recession become more apparent, then sure, stock values are likely to decline further. But the future is unknowable, and signs of recovery could boost stock prices. Today's market price reflects the value paid by a willing buyer and prices reflect uncertainty.

As Warren Buffett said, "Be fearful when others are greedy, and be greedy when others are fearful." The fact that fear has returned to stock markets may be good news for investors who take a consistent, long-term approach. ♦

High unemployment, Europe's debt crisis, a slowdown in China, a teetering housing market and sinking stock prices are all weighing on a fragile U.S. recovery. The news is filled with grim stories and dire predictions. Again.

To be sure, the uncertainty about the domestic and global economy is priced into current stock

## Risky Business (cont.)

market valuations. It's important to remember that stock market prices do not fall in a vacuum. For every sale of a security there is a willing buyer on the other side who thinks the security has great growth potential. The interactions between buyers and sellers are what make financial markets efficient.

I don't know if the economy is headed for another recession; however, there are some economists who see light at the end of the tunnel. In its biannual report on the global economy, released in May 2010, the international Organization for Economic Co-operation and Development ("OECD") said the economy is recovering faster than expected.\* The OECD lifted its projections for global economic growth to 4.6% in 2010 and 4.5% in 2011. The OECD did caution about risks including overheating emerging markets and international debt crisis; however, the overall message was one of cautious optimism.

Additionally, the U.S. and other developed countries are introducing legislation to improve transparency in financial markets with an eye on reducing systemic risks in the current system. That's a fancy way of saying these excesses have a way of working themselves out. Once investor confidence increases, markets should be poised to rebound.

As investors we understand the risks of investing in the stock market. We may not like the volatility and uncertainty, but we expect to be compensated for the risk we are taking. And we take this risk for a very good reason: to accumulate enough money to maintain our purchasing power when we quit getting a paycheck. A well thought-out investment strategy may not have great outcomes in the short run, but

maintaining discipline in down markets will lead to long-term investment success.

You can't change your feelings about what's going on in the world. You can only change your actions. For younger investors in the accumulation stage, you are in a great position to benefit from the market declines. Keep contributing to your investment accounts and buy "low." It's actually a great time to increase your regular investments if your budget allows it. For retirees who rely on their portfolio for income, there are fewer options. The most obvious is to scale back and lower expenses during periods of uncertainty. If your withdrawal rate is low enough (3%-4% of your portfolio), then you should be confident that you have time for your portfolio to recover.

Be prudent and conscious of what is going on, but don't let the news distract you from living your life. Having trust in your investment plan will allow you to ignore the noise in the financial markets and focus on long-term success. ♦

\*OECD Economic Outlook, May 2010

### Form ADV Notification

Form ADV, Uniform Application for Investment Adviser Registration, for Agri-Invest has been filed as appropriate with the Securities and Exchange Commission, and may be reviewed at the offices of Ari-Invest, 101 S. Salina St., Suite 400, Syracuse, NY 13202, or may be obtained by mail by requesting same at this address or by phone at 315-476-8201. ♦

### Returns from Various Markets

The following table shows the returns from various markets over periods ending June 30, 2010:

Market/Asset Class	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	20 Years
Money market	0.0%	0.0%	0.2%	1.6%	2.8%	2.7%	3.9%
Bond market	3.9%	5.5%	9.7%	7.4%	5.3%	6.5%	7.2%
Large-cap stock market	-11.4%	-6.7%	14.4%	-9.8%	-0.8%	-1.6%	7.7%
Small-cap stock market	-9.9%	-2.0%	21.5%	-8.6%	0.4%	3.0%	8.2%
International equity market	-13.7%	-12.9%	6.4%	-12.9%	1.4%	0.6%	4.4%
Inflation	0.7%	1.0%	2.0%	1.6%	2.3%	2.5%	2.7%

### Market Benchmark Portfolios

The following table shows returns from our market benchmarks over periods ending June 30, 2010:

Benchmark	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	20 Years
Capital preservation	0.7%	1.9%	6.1%	3.0%	3.7%	4.1%	5.5%
Conservative	-1.7%	0.3%	8.9%	1.1%	3.3%	3.9%	6.7%
Moderate	-4.1%	-1.3%	11.6%	-1.3%	2.8%	3.4%	7.4%
Aggressive	-7.3%	-4.1%	12.1%	-5.0%	1.7%	2.1%	7.3%
All equity	-11.7%	-7.9%	12.3%	-10.3%	0.0%	0.4%	6.8%

Note: These results were developed by simulating past returns in the various markets included in each benchmark, assuming the reinvestment of dividends and other earnings and deductions of costs totaling 0.20%. The money market is represented by 90-Day Treasury Bills; the bond market by the Barclays Capital Government/Credit Bond Index; the domestic large cap market by the S&P 500; the domestic small cap market by the Russell 2000 Index; and the international equity market by the EAFE Index. This data is presented to show the long-term relationship between returns at various levels of investment risk. It is not intended to present performance results experienced by clients of Rockbridge Investment Management, but is intended to provide a benchmark against which actual performance might be judged. Also, readers should recognize that future investments would be made under different economic conditions. It should not be assumed that future investors would experience returns, if any, comparable to those shown above. The information given is historic and should not be taken as any indication of future investment results.