

June 2010

Dear Clients,

I have just recently returned from two important annual conferences – The Investment Management Consultants Association and fi360 Center for Fiduciary Studies. Both conferences addressed our obligations as fiduciary consultants and “best practices” as prudent advisors, current economic trends for the domestic and foreign markets, and threats to global economic recovery. Key note speakers included some of the most prominent minds in finance – Joseph Stiglitz, Columbia University; Marvin Zonis, University of Chicago – Booth School; Richard Marston, University of Pennsylvania – Wharton; David Kelly, JPMorgan Funds; and author Michael Lewis (Liar’s Poker and The Blind Side).

The takeaways were extremely optimistic! 40 hours of lectures provided a wealth of knowledge, insight and information. The following is my executive summary of the information presented:

- We are indeed in full global economic recovery and the US will once again lead the world in global expansion.
- Persistent high levels of unemployment will be with us for some time, improving about 1% per year until historical norms are reached in 2015. Job recovery always lags economic recovery.
- Policy makers averted depression-like conditions in 2008 while re-stabilizing our financial system. Comparisons to the Great Depression were overblown. During the 1930’s GDP declined 26.7% while the most recent recession resulted in a 3.8% decline in real GDP.
- The most important components of economic recovery are auto consumption, residential construction, equipment purchases, and changes in inventory. As these cyclical forces engage current demographic trends and obsolescence, pent up demand should drive economic growth at a rate of 4%-5% for years to come.
- In 2011, S&P Companies should reach peak earnings from productivity gains, besting pre-2007 levels.
- Treasury Bonds should face strong headwinds as interest rates begin to rise.
- US manufacturing output as a % of GDP has remained stable since 1947, but manufacturing employment has shrunk dramatically due to the efficiency gains from modern equipment and automation.
- Significant discoveries of shale gas deposits in the US and Poland and improvements in extraction technology will reduce Europe’s dependence on Russia for natural gas production.
- At some point, Fed policy makers will tell us when they are going to allow interest rates to rise. Until then, deflationary risks will persist.
- The US economy remains strong, but vulnerable. The financial markets are in a pessimistic mood at present, as we continue to face our very serious challenges to the recovery, (e.g. oil spill, tight credit, federal deficits).
- Changing world-wide demographic trends seem to support considering increased investment in Emerging Economies, for those willing to assume the associated risk.

Geo-Political Challenges

- The US is a relatively weakened superpower as China’s rising star finds new prosperity. Economically we are “joined at the hip” as China has become our largest creditor.
- The Euro-Zone will manage Greece’s “debt crisis” but the road to stability will be bumpy.
- Terrorism is real and persistent.
- Iranian repression and its move to become a nuclear power increase the likelihood of a military confrontation with Israel.

We remain extremely encouraged by the long term outlook for investing in equities. Faced with the geo-political challenges above, market volatility is a certainty, but investors should be rewarded for maintaining a disciplined globally diversified portfolio appropriate for the level of risk they are willing to assume. Please call us to discuss any of these issues further.

Sincerely,



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