July7th, 2010

Here is our newsletter for the 2nd quarter of 2010.

The Markets

The stock markets hit a high on April 28th then fell hard in May and June. For the quarter, U.S. large-cap stocks fell 12.5%, International stocks fell 16.7% and the Barclays Aggregate Bond index rose 3.0%.

For the quarter our equity-tilted portfolio composite was down 3.4% vs. down 9.0% for the benchmark. Our balanced portfolio composite was down 2.2% vs. down 6.6% for the benchmark. Year-to-date our equity-tilted portfolio composite was up fractionally vs. down 5.4% for the benchmark and our balanced portfolio composite was up 0.4% vs. down 3.5% for the benchmark. Our conservative stance has paid off this year, as it has in the two previous years. Our underweight to equities was the primary reason for our outperformance.

The only change we made in the quarter was selling Bridgeway Aggressive Investors II in early May, a small cap U.S. stock fund. We are currently holding the proceeds of the sale in cash. All of our portfolios are currently approximately 30 to 35% underweight equities in preference to bonds and some cash.

Outlook for the Economy

Leading economic indicators have recently indicated a slowing economy. One of our fund managers, John Hussman has the following to say in his 6-28-10 commentary.

> *"Based on evidence that has always and only been observed during or immediately prior to U.S. recessions, the U.S. economy appears headed into a second leg of an unusually challenging downturn."*

John bases his call on several leading economic indicators such as credit spreads, bond yield curves, falling stock prices and weak ISM Purchasing Mangers indexes. The last two times his indicators have signaled a recession was in November of 2007 and October of 2000. Both of these previous signals pre-dated the last two recessions and particularly tough times for the stock markets.

Nobody knows if John's call will be right this time, as I always remind myself that the future is full of uncertainly. However, we do take his, and others thinking seriously. PIMCO came out with an update of their Secular Forum on 5-25-10. Their 3 to 5 year outlook, what they call the "new normal", is for continued deleveraging, reregulating and rerating of risk, all pointing to lower than normal growth for the global economy and lower equity returns as a result. They also point out some economies will do better than others, with developed Europe and Japan being the main underperformers.

Going forward, we will continue to evaluate these and other information sources in managing our client's portfolios.

So Where is the Best Place to Invest Now?

Sounds similar to headlines I often see in the press. I recently found an investment for a client that is netting the client a return of 30% <u>per month</u> on her investment. Sound too good to be true? Read on.

The client is 64 years old and lost her husband two years ago. She contacted the Social Security office in her home town to set up her Social Security income payments. After discussing the options with the Social Security personnel, she decided to hold off taking her Social Security benefit, instead she decided to wait until she reaches the age of 66 and start her benefit based upon the benefit earned by her husband. By waiting until she is 66, the monthly benefit will go up by about 25%. The thinking was she could collect a higher benefit over the long haul by waiting for four years and letting her survivor benefit amount increase up to the maximum at age 66.

I did some research for the client and told her to call the Social Security office and request that her benefit be started immediately based on her retirement benefit. The rules entitle her to a benefit on her own earnings, in addition to that from her husband's earnings. The Social Security office confirmed she could claim her own retirement benefit and get a check for $450 per month. Most importantly, when she turns 66 she can then switch back to her husband's benefit and get the same approximately $2,000 per month benefit based on his record. Her benefit at age 66 will be the same as if she had not taken her own benefit earlier. This ability to switch from one benefit to another is unique to Survivor benefits. You cannot switch from one benefit to another while both spouses are alive.

The client asked me to help her analyze her current financial condition. I provided her many specific recommendations concerning her bank accounts, debt, taxes, insurance, investments and funding her retirement. The client paid me a fee of $1,500 for my efforts. Most of the time it is difficult, if not impossible to define the value of our service to the client in dollars and cents. But for reviewing her Social Security benefit eligibility the client will receive an additional $9,000 over 20 months until she is age 66. That is a 30% return on her investment every month for 20 months, well north of a 300% annualized return. This holistic approach to financial planning is what is truly rewarding. If anyone knows of a better investment, please let us all know.

NAPFA Consumer Webinar Series
The fee-only financial planning organization I belong to, the National Association of Personal Financial Advisors, has a great series of monthly educational presentations that are free to the public. Many of the instructors are authors, educators and leaders in the industry. Each monthly session is one hour in length and contains a formal 40 minute presentation and 20 minute question and answer session. You can find future and past presentations on the internet at http://www.napfa.org/consumer/ConsumerWebinarSeries.asp. I hope you can find time to attend and let me know if they have been helpful.

Thank you for your continued interest and let me know if you would like some help in understanding your financial situation.

Sincerely,

Stan Johnson, CFP(R)
Comprehensive Financial, Inc.
Registered Investment Advisor