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Come on in, the Water is Fine

Monthly Update from Your Portfolio Management Team—June 6, 2008

With summer upon us, the temperature has started to heat up around the country. In the DC area we are expecting temperatures to approach 100 during the second week of the month. No doubt that around the country people will be looking to head to the nearest pool, pond, lake or ocean to get relief from the heat.

In similar fashion, with the stock market showing signs of life recently—finishing higher in both April and May—we have continued to dabble our feet back in the investing waters. As we mentioned in last month's update, we began putting money back in high yield bond funds in the more conservative strategies, such as Income, Income & Growth, and Conservative Growth. At this point, we have between 30% and 60% invested in high yield funds among these strategies. Core Equity does not typically invest in bond funds, but we did add a technology fund to many Core Equity accounts. Tactical Growth accounts have an eclectic mix of equity funds, commodity funds, inverse funds, and even a dollar fund. Overall, our portfolios have very little allocated to stock funds at the moment, but we stand ready to get more invested if the market can break through the technical resistance that we see.

It does not appear that the economy will meet the government's definition of a recession this year. The first quarter growth in the economy was revised slightly upward to 0.9%. Many observers believe that the tax stimulus package from the government, mixed with the lower interest rates from the Federal Reserve Board, will provide sufficient juice to push up economic growth in the second half of the year and thus keep us out of recession.

What would make us feel more comfortable with having a higher allocation to stock funds?

1) Market indices breaking through resistance—the market fell almost 20% from its peak in October down to the low in March and have rallied about 10% from that low. We would like to see the S&P move above 1410.
2) Broader participation in market rallies—the rebound since mid-March has been concentrated in a relatively few number of stocks. We would like to see broader participation.
3) Oil prices retreat from recent highs—the current price is over $135, and we would like to see the price closer to $100.

The markets remain locked in a battle between the forces of recession and inflation, with day-to-day market volatility reflecting that uncertainty. With the exception of the high-flying commodity-related area, most market sectors are struggling to regain a positive trend. Until such time as we see a broad-based trend develop, we will maintain a pretty defensive investing position. The water may look enticing when it's hot, but we want to avoid the unseen dangers below the surface for now.

If you have any questions about your specific accounts, please do not hesitate to call or email us.