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Newsletter
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Recognition

We have reason to celebrate. Connecticut Magazine named us as one of the top financial advisors in Connecticut. The hard work and high level of service by everybody in the office made this possible.

The economy and the markets

The economic winds are changing. Below is what we see happening today. Tomorrow is a different story. We think we are in a period of change and there is good chance the next several years will be quite different from the past several years. Our challenge is to figure out how to make it possible for our clients to benefit from these changes all while controlling the risks.

The turmoil in our financial world accelerated in the first quarter of this year. A drop in housing prices, which triggered the credit problems, is continuing. There are huge variations from one part of the country to another. Regions where prices had gone up the most have been hit the hardest. Housing clearly was a bubble and many got caught in the fever and many (home owners, banks, Wall Street) share the blame. This includes our politicians, who pushed home ownership as the "American Dream" and who put in place policies which encouraged people to buy homes they couldn't afford. Now the politicians are struggling to create policies to help those who were hurt the most. The problem is housing prices-which got too high- need to come back to reasonable levels. Government actions to slow the drop only prolong the agony. There is no magic house fairy. When prices drop only three groups can absorb the loss in value: the homeowner, those holding the mortgage, or the government, which of course means you and me. Since so many people considered their home as their primary asset, either as a cash cow to meet today's expenses or to tap for future retirement, many will have to change their financial plans and this may be painful. This is likely to cause a big adjustment in the nation's finances.

The breaking of the housing bubble triggered problems in the credit markets which expanded far beyond mortgages. Financial institutions have written off massive amounts of debt and reported multi-billion dollar losses. Some have gone under. World-wide we are seeing massive de-leveraging (eliminating debt), reversing the trends of prior years when easy credit spurred economic growth. The de-leveraging and its impact will probably go on for several years and will not only affect individuals retirement plans (both through reduced housing prices and falling asset prices), but also many economic decisions throughout the world. The economy is slowing and several months from not it may be deemed a recession, but more importantly the de-leveraging may slow economic growth for several years as the world works through all the problems. The world in the future may be different from where we have just been as new sectors dominate the world economy, asset classes are re-priced, and economic risks evolve. We will be working to determine how to benefit our clients from these changes and hopefully reduce risk.

Turning back to the short term, the financial markets typically try to predict the outcome of what is happening around us. Analysts traditionally say the markets are looking six months out. Some analysts argue a bottom of a bear market occurs with a major financial disaster. The implosion of Bear Stearns is possibly such an event. There are two reasons why frequently the stock market bottoms when a financial disaster hits. First, the disaster encourages all the weak owners of stock to sell. They sell in a panic mode and thus are out of the market. We saw near panic selling during most of the first quarter. Second, a disaster gets the full attention of the Federal Reserve with all its resources and its commitment to not let events lead to a disaster. The Fed was late in recognizing the seriousness of the credit crisis, but seems to have finally woken up and its action to assist an investment bank like Bear Stearns is unprecedented.

With all of the above happening commodity prices have skyrocketed. There is probably more here than the weak dollar and fear of inflation. World-wide growth has lifted millions out of poverty and they want to eat well and drive cars as we do in the developed world. Demand for many food products has increased faster than crops can be planted. The shortfall is compounded by the increase demand for fuel (once again driven by the higher standard of living by those in the developing markets) and the shift to bio-fuels (encouraged by politicians) which puts additional pressure on agriculture products. The irony is the higher prices are because good things are happening- people moving out of poverty. I am optimistic the agricultural markets will adjust and provide the additional crops, but short term there may be shortages.

Our clients' portfolios generally held up relatively well during the first quarter, a period when major stock indices were off 8%-10%. We attribute this to the diversification we preach, and it goes beyond stocks, bonds and cash. Even in the bad first quarter some areas did well. Bonds such as TIPS (Treasury Inflation Protection Securities), foreign bonds, gold funds, and commodity future funds all had gains which helped offset the stock losses. Of course these investments frequently have their own inherent risks, may be very volatile, and are affected by currency fluctuations; but because they moved differently than stocks inclusion in portfolios reduced the volatility of the portfolio. We of course don't know whether this will happen in the future.

What is happening on the Campaign Trail

I initially thought the long campaign was a waste of time but have changed my mind believing that its length has tested the candidates and helped voters to better know who the candidates are. Another change is the Democrats no longer are thought to have a lock on the White House. We may have a competitive race. The Senate and House still are likely to stay Democratic as predicted earlier. The heavy turnout implies voters believe the outcome will affect the course of the country. Existing budget restrictions (and the views of Middle America) may limit the winner's ability to change policy more than he or she would like. Major issues to investors are what will happen to the 15 percent tax on dividends and capital gains which expires in 2011, and the estate tax reversion back to old law. Fortunately all the Presidential candidates seem to want to maintain something like a $3.5 million estate tax exemption which with good planning should help most people avoid this tax

What is happening at Kreitler Associates

Wednesday at Mory's has been a great success. The next luncheon will be May 14 and we have seats for you and (a guest) if would like to join us. We will then put these luncheons on hold until September…. We are starting a lending library for financial books that clients might like to read. It is limited so far, but please ask to see what is available. If you have a suggested book (or have finished reading one that you would like to donate) that you think others would be interested in reading, please let us know so we can add it to our collection.