

Soundings

What's New – August 2009

Quote of the month:

"The trouble with life isn't that there is no answer, it's that there are so many answers."

- Ruth Benedict
American Anthropologist 1887 - 1948

Please plan to join us on August 25th for our annual *Social Security/Medicare Update 2009* seminar. This has always been one of our most popular events conducted by a representative from the Social Security field office in Pensacola, it will be especially interesting given all the talk of change to existing and future government programs. This special event will be held in the conference room of The Blake, 4410 Gulf Breeze Parkway, in Gulf Breeze at 10:30 am on Tuesday, August 25th. Please call Evelyn or Jan at our office for more details.

Upcoming Events

<i>Social Security/Medicare Update 2009</i>	Aug 25
<i>Financial Issues in Divorce</i>	Aug 31
<i>Maintaining Control in Estate Planning</i>	Sept 29

Seminar dates and locations are subject to change, please call Evelyn or Jan at 936-6686 for more details

Market Update – Year to Date Returns

<u>Major Stock Indexes</u>	<u>(As of 8/01/09)*</u>
Dow Jones Industrials	4.5%
S&P 500 Index	9.3%
NASDAQ Comp	25.5%
Dow Jones World Index (ex US)	21.7%
Russell 2000 (small cap index)	11.5%

<u>Major Bond Indexes</u>	
Broad Market – Barclays Capital Aggregate	2.9%
High Yield Corporate - Barclays Capital	37.7%
Municipal Bond - Barclays Capital	8.5%

<u>Lipper Mutual Fund Categories</u>	
Large Cap Growth	20.8%
Large Cap Value	10.3%
Small Cap Growth	20.9%
Small Cap Value	15.8%
International	21.2%

Source: The Wall Street Journal and Barclays Website

- Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect investment performance. Individual investor's results will vary

Other Disclosures:

- The S&P 500 is an unmanaged index of 500 widely held stocks that's generally considered representative of the US stock market. The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ market. The Russell 2000 index is an unmanaged index of small cap which generally involve greater risks. The Dow Jones Industrial Average (DJIA), commonly known as the "Dow", is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal.
- The information contained in this report does not purport to be a complete description of the securities, markets, or developments referred to in this material. The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Any opinions are those of Jon Kagan and not necessarily those of RJFS or Raymond James Financial. Expressions of opinion are as of this date and are subject to change without notice. This information is not intended as a solicitation or an offer to buy or sell any security referred herein.
- Investments mentioned may not be suitable for all investors. Past performance may not be indicative of future results. You should discuss any tax or legal matters with the appropriate professional.
- Income from Municipal Bonds may be subject to State, Local or AMT taxes.
- Please note that international investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility.
- Keep in mind asset allocation and diversification do not assure a profit or protect against a loss.
- Commodities are generally considered speculative because of the significant potential for investment loss. Commodities are volatile investments and should only form a small part of a diversified portfolio. There may be sharp price fluctuations even during periods when prices overall are rising.
- Investing in the oil sector involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

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Market & Economic Commentary

Corporate earnings have been coming in relatively strong for the second quarter with the "*beat rate*" or number of companies reporting better than expected earnings, coming in at record levels. But there has been a lot of chatter that these earnings have come from **bottom-line vs top-line growth**...so what gives and *why should we care?* The reference is to a company's Income Statement and bottom-line growth typically comes as companies cut their expenses and get lean (read: unemployment). Top line growth, on the other hand comes from an increase in revenues, either in a new markets or by gaining market share from a competitor. According to economist **Dr David Kelly, Chief Market Strategist** for *J.P. Morgan Chase* there is reason to expect a jump in top-line growth in the next couple quarters due to issues relating to inventories. *Kelly* gave a fascinating presentation at the **RJ Regional Conference** that I'll summarize below.

Let's look at it from a macro perspective or GDP and examine three components; **Inventories, Autos, and Housing Starts** (oh my...). On an annualized basis, inventories have dropped by more than \$90 billion, falling 8 out of the last 9 quarters with the last quarter seeing the biggest drop in 26 years. Eventually, when shelves empty out, you've got to order again and when that happens, it will affect top lines. *Dr Kelly* talked about his wife going to *Costco* and finding them out of chicken and I'm sure you've got your own examples. Moving to autos, over the past 27 years, there have only been 5 months where total sales are less than 10 million units...you guessed it, January through May of this year. Since the **scrapage rate** for autos is 30 million units, we are sending 3 times more cars to the junkyard than are being produced so this has to bounce (incidentally, he gave his presentation prior to the "*Cash for Clunkers*" program). Finally, through May of this year, Housing Starts have been running at an annualized rate of about 510,000 units, the lowest rate in 50 years. Though we're working through an inventory issue, to put things in perspective, the population grows at about 2.3 million per year which translates to a need for 1.6 million new houses. Additionally, 2.2 million people get married per year and they can't all move in with their inlaws. To be sure, we are running into some headwinds, not the least of which is unemployment but the laws of supply and demand point to a top line induced bounce at some point in the future.

Much has been written about the **rise and fall of the value of US dollar** and I've had more than a couple clients tell me they've heard that the dollar is going to become worthless because all the money being printed and pushed into the economy to get it jump started. Let's take a minute to learn what drives the price of our greenback. Pure and simple, it's supply and demand. It takes US dollars to buy stuff made in the US. Over the past year, the most desired product produced here is **US Treasury security...bonds, notes, and bills** (the difference being the maturities). When the financial markets were melting down around the globe and we stared into the abyss, trillions of dollars from around the globe went to the safest haven known...the **US Treasury**. At one point, so much money moved into the **T-Bill**, it drove up its price to the point that the yield or interest earned, actually went negative! As it now stands, with appetites for risk increasing and money moving back to the stock markets, the price of Treasuries is coming down. But in times of crisis money comes back to the Treasury. From the perspective of **global trade**, the US is a net importer meaning we buy stuff that other countries make. If the value of the dollar is too low vs the currencies from our trading partners, it costs us more to buy their goods. As price goes up, demand goes down so it goes to reason that our trading partners around the globe have every incentive to maintain the value of our dollar and will trade the currency accordingly. The last point I'll cover is the fact that nations around the world hold trillions of dollars of our Treasury securities on their collective balance sheets and therefore have a vested interest in keeping our currency viable.

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On a Personal Note

The *fourth of July* was a little more somber this year since a dear friend and client of ours passed away. *Howard* was about as all American as it gets. Born in Ohio, he enlisted in the Navy, worked his way up to Chief Petty Officer. After retiring from the Navy, he made his way back home to Ohio and got hired on by the local Ford plant. True to his nature, when he received his first paycheck, he couldn't believe how generous it was and thinking there was a mistake, was going to take it back if not stopped by his sister who told him everything was as in order. I met Howard and his wife *Phyllis* after he had retired from Ford and they settled in Florida. Even though heart disease had slowed him down, he was as sweet a man as you'd ever meet and greeted everyone with a big, warm smile and me with a firm handshake that'd always bring an only half-joking grimace to my face. Howard left his wife Phyllis, his children *Michael* and *Juli*, grandson *Jackson*, and me with an example of how nice-guys don't have to finish last and how successful you can be in life with love, compassion and a positive attitude.

We've been really battenning down the hatches in the Kagan family during these challenging economic times so I decided to combine a continuing education conference with a family mini-vacation and we packed up the family truckster and took a roadtrip down to central Florida. We enjoyed a great visit with nieces *Kate* and *Kimberly* who are working and going to school in Orlando. We decided that we'd had our fill of the parks until we take the future grandkids there in 15 years or so but we did spend an afternoon at a state park featuring a natural cold spring called, "*Wekiwa Springs*" for a very cool dip on a very hot day...some excellent snorkeling also. I recommend it wholeheartedly for a nice diversion on your next trip to *Disney*. Take a look at <http://underwaterflorida.homestead.com/Wekiva.html>.

The fun continued upon returning home as Kathleen's crazy cousin *Karen* was in town for their annual Pensacola rejuvenation. Karen and her husband *Matt* have assembled a beautiful family originally **made in Russia**. They adopted their first son, *Max*, back about 11 years ago. They returned a couple years later and adopted their daughter *Camille*. As a tie-breaker, they adopted *Luke* back in 2004 and the whole gorgeous bunch of them currently live up in Pennsylvania. As an added bonus, Karen's brother *Bob* was down from NY, NY as well. Bob is one of my all-time heroes. He was a bit of a wild man as an adolescent. Somehow he got accepted to *St John's University* in Minnesota and while on the verge of getting kicked out, broke his neck wrestling with a roommate. Blessed with an amazing attitude, Bob used the accident as a wake-up call. He continued in school and graduated with a degree in accounting. He spent a few years working as a CPA before deciding to follow his old man's footsteps and go to law school. He's been practicing securities law, living and working in Manhattan (he's also made it a point to take regular month long vacations to places like *Russia, China, Vietnam* and other destinations that most of us just see in *National Geographic*. Bob was getting a bit bored so he let us know he'll be spending about 6 months in *Honduras* doing volunteer work before moving back to the Midwest to teach at his alma mater.

I hope you're all doing well, having a wonderful summer and enjoying each day as it comes.

Warmest regards,

Jon

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