

Soundings

What's New – July 2009

Quote of the month:

"A handful of patience is worth more than a bushel of brains."

- Dutch Proverb

This month's seminar is a new one, entitled "*a Senior Moment, or is it Alzheimers.*" Guest speaker **Glenn Barclay**, RN owner and Chief of Operations of **The Blake at Gulf Breeze** will address memory disorders and the aging process, how to spot warning signs, ways we can *exercise* the mind, and the latest in diagnosis and treatment protocols. Barclay has a Bachelor's degree in Finance, a Master's in Theology and has spent his career managing Retirement, Assisted Living and Memory Care communities. This special event will be held in the conference room of The Blake, 4410 Gulf Breeze Parkway, in Gulf Breeze at noon on July 28th and will include lunch. Please call Evelyn or Jan at our office for more details.

Upcoming Events

<i>A Senior Moment or is it Alzheimers</i>	July 28
<i>Social Security/Medicare Update 2009</i>	Aug 25
<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

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Market Update – Year to Date Returns

<u>Major Stock Indexes</u>	<u>(As of 7/01/09)*</u>
Dow Jones Industrials	-3.8%
S&P 500 Index	1.8%
NASDAQ Comp	16.4%
Dow Jones World Index (ex US)	11.3%
Russell 2000 (small cap index)	1.8%
 <u>Major Bond Indexes</u>	
Broad Market – Barclays Capital Aggregate	1.9%
High Yield Corporate - Barclays Capital	30.4%
Municipal Bond - Barclays Capital	6.4%
 <u>Lipper Mutual Fund Categories</u>	
Large Cap Growth	12.3%
Large Cap Value	2.7%
Small Cap Growth	13.1%
Small Cap Value	4.6%
International	10.1%

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

With the **Federal Reserve's** printing presses running around the clock, many are sounding the *Inflation alarm*. I thought I'd take this month to look at the "*flations*", inflation and her cousin deflation; examine the causes, historic references, hear what some thought leaders are saying on the subject and look at possible hedging strategies. Inflation can be defined as *a general and progressive increase in prices in which everything becomes more valuable but money*. The Federal Reserve uses Monetary Policy to balance growth of the economy with stability of prices. To keep things simple, the Fed has two major tools in its belt, the ability to control interest rates and the supply of money. During a recession, the Fed typically increases money supply and lowers interest rates in an effort to get people and businesses to consume. If left unchecked for too long, this can be inflationary as it can ultimately result in "*too many dollars chasing too few goods*" giving producers of those goods the ability to raise prices.

The financial meltdown of last fall led to a massive "*deleveraging*" by both consumer and business. In English, people and businesses rushed to raise cash and reduce spending and debt, hunkering down for a winter of which no one knew the duration. This deleveraging led to fears of a **deflationary spiral** where producers were forced to reduce the price of their goods and services to spur demand, the reduced profits would force them to cut their workforce, this rise in the unemployed would further reduce overall consumption and we get an ugly downward spiral. Monetary policy therefore shifted in an attempt to douse the flames of deflation before they got out of hand. So far, it seems to have worked and along with Fiscal Policy (Government spending), all signs point to the recession grinding to a halt with a resumption of growth sometime at the end of 2009 and into 2010.

But back to inflation. **Remember the 70's?** The *hyperinflation* of that period was brought on by the Mideast oil embargo and subsequent energy crisis. Massive inflation during that time period made a 15% yield on CD's a possibility but so was the 18% home mortgage. To break the back of inflation, which peaked at 13.5% in 1981, Fed Chief **Paul Volker** eventually raised the Federal Funds rate to 20%. It worked, inflation was down to 3.2% by 1983 but the unwelcome side-effect was a nasty recession. Since that time, the Federal Reserve has done everything in its power to manage the competing goals of full employment and stable prices and has a pretty decent track record to date.

Well we have to have something to worry about...should it be inflation or deflation? Given the tough jobs market, the overwhelming majority of economists do not see a danger of inflation until at least 2011. A rule of thumb is inflation doesn't become a problem until the unemployment rate dips below 5%. As it now hovers just under 10% with the US Savings rate at record levels and growing, competitive forces won't allow prices to rise. **Mark Zandi**, Chief Economist at Moody's doesn't see the scales tip till 2011 or even 2012. As far the dangers of all that money being pushed into the economy, economist **Brian Bethune** of HIS Global Insight points out that it is not making it to consumers but instead, the money going to the banks is just going right back to the Federal Reserve because of the increased reserve requirements that have been imposed. In his opinion, inflation will only become an issue when banks resume normal lending (or the new normal) and that may not be for some time. Chief Economist at Oppenheimer, **Dr Jerry Webman** says you need to look at the velocity of money. For inflation to be a problem, money must be available and it must actually chase goods; velocity is how fast that money moves through the economy. Money sitting under a mattress creates no economic activity and is unlikely to cause inflation. He further opines that even when money moves rapidly through the economy, inflation will result when increased demand is not matched by additional production but rather an increase in prices. Conversely, "**prosperity**" tends to exist when increased money supply and subsequent demand is met with a similar increase in production. As far as when the Fed will reverse course and start to tighten rates, **Paul**

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McCulley, Managing Director of fixed income titan PIMCO, predicts it will be no sooner than 2011 given the continued risk of a deflation.

To hedge against inflation, you'll want to own things that have the potential to benefit from rising prices. Oppenheimer's *Jerry Webman* suggests **non-dollar denominated debt**...in English, bonds issued by foreign governments. He likes Brazil as they are a resources based economy and their currency and economy tend to benefit from rising prices. **Commodities and natural resources** also tend to benefit in periods of inflation and analysts from Morgan Stanley opined that a new commodity cycle will begin in 2010 after last year's crashing marked the biggest slump in 50 years. Long-Term Bonds tend to get hammered, their price moving in opposition to interest rates with the exception of TIPS. TIPS, or **Treasury Inflation Protected Securities**, like their cousin, the traditional Treasury Bond, have a fixed interest payment, measured as "*yield*." The yield on TIPS is less than a traditional Treasury of the same maturity because the TIPS has an additional inflation kicker which gives an added punch in the presence of inflation.

Coming full circle, inflation should always be a concern to you as an investor and consumer but in the current environment, it shouldn't be an over-riding concern.

On a Personal Note

As a financial planner, one of the areas that I cover with young parents is planning financially for a college education. After working with my boys at the concession stand during a recent **Chamber of Commerce** fundraiser I realized I need to start counseling the same fledgling parents on setting up a fund to finance their future teenage kids' **voracious appetites**. The payment my kids got in return for their volunteer work was all the barbecue that they wanted but I was amazed to learn my son *Alex* downed four hamburgers that night! I told you he was an overachiever.

You know my wife *Kathleen* is my **running partner/drill sergeant** and for the past several months she's added more **pain** to our routine. Our Tuesday run is just 20 minutes vs the regular 30, but after every 2 minutes, she has us do an all-out sprint for 30 seconds. It is awful but the way I get by is to imagine others in an equally grueling situation like **Navy SEALs** training in Coronado or being *Rosanne Barr's* voice coach and I feel guilty for complaining. Today during our run, I imagined being *Andy Roddick* at last weekend's **Wimbledon** final going more than 4 hours against *Roger Federer*, including a record-setting 30 game final set before falling to the man Pete Sampras dubbed "the greatest ever." They played nearly 80 games, routinely delivering blistering serves of more than 130 mph but neither looked the slightest bit winded or worn out.

Finally, you're all probably a lot more technologically savvy than me but I'm going to try to grow this week at a local **Chamber of Commerce** seminar called *Social Media 101* where we'll learn the ins and outs of *Facebook*, *Twitter*, *Digg* and *You Tube*. If I pick up (and retain) anything useful or interesting, I'll pass it on in next months newsletter.

In the meantime, I hope you're all doing well and enjoying each day as it comes.

Warmest regards,

Jon

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