

Soundings

What's New – May 2009

Quote of the month:

“Our business in life is not to get ahead of others, but to get ahead of ourselves -- to break our own records, to outstrip our yesterday by our today.”

- Stewart B. Johnson

Upcoming Events

<i>Moving from Defense to Offense</i>	May 20
<i>The Financial Issues in Divorce</i>	June 18
<i>A Senior Moment or is it Alzheimers</i>	July 23
<i>Social Security/Medicare Update 2009</i>	Aug 20
<i>Maintaining Control in Estate Planning</i>	Sept 24

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 5/01/09)*</u>
Dow Jones Industrials	-6.9%
S&P 500 Index	-3.4%
NASDAQ Comp	8.9%
Dow Jones World Index (ex US)	-0.1%
Russell 2000 (small cap index)	-2.4%

<u>Major Bond Indexes</u>	
Broad Market - Barclays Capital Aggregate	0.5%
High Yield Corporate - Barclays Capital	19.2%
Municipal Bond - Barclays Capital	6.3%

<u>Lipper Mutual Fund Categories</u>	
Large Cap Growth	6.5%
Large Cap Value	-3.4%
Small Cap Growth	-6.1%
Small Cap Value	-0.8%
International	-1.5%

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.

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Market & Economic Commentary

It's been a heck of a run since last month's report. The market's been up for seven of the past eight weeks since the **S&P 500** hit what *RJ Chief Strategist Jeff Saut* dubbed the "demonic low" of 666 intraday on March 6th. Currently sitting at just over 900, that's a 35% gain, for those keeping score and an investor would have to go back to the 1930's to match the velocity of this uptick. Nearly everyone has been waiting for a time out including *Jeff Saut* as the all time record for these "*buying stampedes*" is 41 days and May 5th marked day 40 of the current skein. That said, nothing about this economy and corresponding financial markets are routine and it's anyone's guess as to what happens in the short run.

On the **economic side**, we've been greeted with some bad, "*less bad*" and even some good news. On the "*bad*" side, **Gross Domestic Product (GDP)** fell at a worse-than-expected 6.1% pace in the first quarter of this year and it's expected that unemployment (reported two days after this writing) will worsen as well. On the "*less bad*" side, **manufacturing activity** improved again in April to its highest level since last September although it's still at a level that indicates contraction. On the "*good*" side, **Consumer Confidence**, as measured by the University of Michigan survey, finished up and at its highest level since last fall. And within the bleak GDP report was another "*green shoot*" in the 2.2% uptick in **personal consumption**, which *Blackrock's Bob Doll* suggests that consumers are beginning to believe the worst of the recession may be behind us, a critical factor as consumer spending accounts for nearly 70% of our economy.

Overall, **Corporate earnings** have come in better than expected. With more than 65% of the companies in the S&P 500 reporting, 65% of those have beaten analysts' estimates. One would expect stocks to react favorably since stock prices are a reflection of the estimate of a company's future earnings and the declines in stock prices since last fall were a reflection of a banking system facing a cataclysmic failure. Well, expectations became reality in April as the **S&P** rose 9%, the **NASDAQ** gained 12%, the **Dow Jones World Index** gained 12%, and **High Yield Bonds** were up 11%. As we've discussed previously, allocating your portfolio according to what performed the best last year, though it often feels like the right thing to do, is usually a painful exercise. Last year, the only safe place to be was Treasuries. This year, with yields so low and huge government spending programs, I wouldn't put much hope in a repeat performance.

I'm going to finish with an abstract of a **case study** presented in last month's *From Defense to Offense* seminar. The author compared the effect of portfolio construction on 6 portfolios of increasing diversity to see how they survived an initial 5% withdrawal, increased annually for the actual inflation rate. He began the illustration in January of 1973, the beginning of an awful recession and a very bad year to enter retirement. All portfolios started with \$1million dollars and a first year withdrawal of \$50,000. **Portfolio 1** was 100% Large Company Stock, **Portfolio 2** was 60% Large Company Stock/40% Treasury Bond, **Portfolio 3** was 50% Large Company Stock/10% Small Company Stock/40% Treasury Bond, **Portfolio 4** was 35% Large Company Stock/10% Small Company Stock/15% International Stock/40% Treasury Bond, **Portfolio 5** was 25% Large Company Stock/10% Small Company Stock/15% International Stock/10% REIT/40% Treasury Bond, **Portfolio 6** was 15% Large Company Stock/10% Small Company Stock/15% International Stock/10% REIT/10% Commodities/40% Treasury Bond. The results found **Portfolio 1** running out of money in 1991, an all cash or all bond portfolio running dry in 1994 and only Portfolios 5 and 6 lasting through 2008. However **Portfolio 6** had more than \$3.6 million remaining, while Portfolio 5 was down to under \$300,000. Why such a huge disparity? It turned out it wasn't the returns. Portfolio 6 only outperformed Portfolio 5 by 0.27% per year. It was the **risk**. The added diversification significantly reduced both the number of down years and the severity of the down years and allowed this portfolio to weather more than 35 years of market turmoil and a period of very high inflation (remember the 80's?).

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On a Personal Note

One of the tradeoffs of living in a small town, for a fan of live music, is the lack of big name concerts. As a kid growing up outside of **Boston**, we always had the opportunity to see almost anyone “*live*” at any number of venues within a 30 minute drive. Well, Kathleen and I had the opportunity to partake in some rock and roll history in April when the iconic **Joe Cocker** made a trip to town and played in the newly renovated **Saengar Theatre**. The Kagan household is cutting back more than most in this economic downturn but when the tickets were cut to ½ price for one day only (we got a “*ginsu*” knife thrown in to boot) we went for it. I’ve been a big fan of Joe ever since seeing him perform on **Saturday Night Live** in the 70’s alongside **John Belushi**, who mimicked his epileptic like mannerisms in perfect synch. Joe put on an amazing show and though he looked like my grandpa, he sounded as if we were back in the 70’s at **Woodstock**. He and his band played all the standards like “*With a little help from my Friends*”, “*Feelin’ Alright*”, and “*Delta Lady*”, and even threw in a cover of **Creedence Clearwater Revival’s** “*Long as I can see the Light*” for an encore.

The following weekend, the whole Kagan family enjoyed some good, clean American fun when Pensacola’s **Five Flags Speedway** opened the doors for a **Navarre Chamber of Commerce** night. As a member of the chamber, I got to bring my family for an excellent night of alternative (to us anyway) entertainment. I’ve got to say it was a blast. The speedway is a half-mile, banked oval, asphalt track and they race several classes of stock cars of increasing cost and complexity ranging from the “**Bomber**” class costing around \$3500 to the “**Super Late Models**” costing over \$100,000. An added bonus was the special celebrity driver making his debut in the Bomber class. A friend and local realtor, **Bart Pullum** made his debut and as expected, finished dead last but didn’t make any wrong turns and finished the race with a new appreciation of driving on Highway 98.

I’m going to close with a **book review**. I normally don’t take the time for much recreational reading other than during airport time once or twice a year but Kathleen gave me a book a couple weeks ago that I couldn’t put down. Called “**The Glass Castle**”, it’s a memoir written by **Jeannette Walls**, an MSNBC correspondent about growing up in a family that makes all of ours look like the Cleavers. The Walls family lived like nomads under the rule of their parents, Rex, a charismatic and brilliant free-thinker whose alcoholism kept them constantly “*skeddadling*” from place to place and usually under cover of darkness, and Rose Mary, an artist and self-proclaimed “*excitement addict*” who didn’t have time for the little things like caring for her four children or “*cooking a meal that would be consumed in fifteen minutes when she could make a painting that might last forever*”. The beauty of the story is how the children ultimately triumph through their attitudes, loyalty and ingenuity amongst overwhelmingly shoddy odds and puts to rest any argument that your surroundings determine your destiny.

I hope you’re all doing well and enjoying each day as it comes.

Warmest regards,

Jon

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