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Market Update

June 16, 2009

Summer Outlook

Dear Clients and Friends,

Years ago, a good friend and fellow financial planner, the late Harold Gourghes, irritated the editors of financial magazines by publishing the *Gourghes Index*. The index correlated explosions in advertising for specific financial products (such as tax shelters) with market peaks. There was truth in his madness. Advertisers tend to push “hot products” aggressively at the top of the cycle.

Judging from the proliferation of ads from sellers of gold or “sure thing investment recovery schemes,” the latter often a disguised pitch for equity-indexed annuities, we may be near a peak in pessimism and “gloom and doom” marketing. Yes, there are challenges ahead but be wary of the siren song of easy-fix, buy-it-now, snake oil salesmen.

We have long found the editors of Washington’s *The Kiplinger Letter* to be a voice of reason midst a confusing cacophony of peddlers. Their June 12, 2009 letter was particularly interesting. As their opinions match ours, we took heart.

Kiplinger believes that market indexes are unlikely to revisit the lows of March. But market progress is not an escalator and backing and filling is likely, especially over the summer when lighter trading volume is in play.

Kiplinger sees GDP flattening, but up by year-end. The Prime Lending Rate should stay flat at 3.25%. They see 10-year Treasury notes as volatile, but ending 2009 down slightly from here (3.75% on 6/16/09). The interest rate yield curve is steepening, pointing to a recovery.

Kiplinger notes a concept that we have espoused. The longer any index runs well above average in performance, the greater the possibility of reversion to the mean (i.e., a

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period of below average performance). If performance has been below average for a period, a positive reversion to the mean becomes even more possible.

Mirroring that concept, Kiplinger sees “a better story” for the market over the longer run: “After the scalding of the past decade, a return to the norm over the next decade: A 10-year annual average in the neighborhood of 10%.”

The “next decade” starts in 2011. So maintain adequate cash reserves in your “What if?” and “Paycheck Fund” accounts and give your stock portfolio time to recover. Those not needing income should consider adding to equity positions.

Crude oil, they think, will hit \$85/bbl. by July or so (\$72.17 bbl. on 6/16/09). Summer driving will cost more but ignore hysterics about \$4 a gallon gas. Demand will slacken at \$3 a gallon! The jump in price has been driven by speculators, not demand per se. Says Kiplinger, the price will peak around \$85/bbl. and then decline closer to \$65 a barrel and \$2.25 a gallon gas by year-end.

Insurance rates are rising! If you want to lock in low term insurance rates, apply now. Living benefits and income guarantees on deferred annuities will be less favorable so move now if such tools are seen as a “fixed-income with an upside” play.

We expect inflation rates to rise. We are researching a number of defensive strategies and may launch a series of workshops in the fall. Stay tuned!

In the meantime, enjoy your summer!

Comings and Goings

Lewis will be away from June 18-31, on a pilgrimage to Ireland featuring major religious sites.

As you may know, our new associate, Mike Hostetler, was an All American baseball player at Georgia Tech and he played for the Brave’s organization as a pitcher. An injury ended his baseball career.

Mike’s son, Michael, age 9, has taken up the cause as a pitcher, second baseman, and outfielder for the East Cobb Raptors, a travel baseball team. The team is headed for the Simply The Best World Series at Panama City Beach, June 20-27. Mike and family will be in the cheering section!

Vickie is headed to the beach July 13-17. Someone is always here if you need us. In these hazy, lazy days, we wish you quality time with family and dear friends.

All the best,

The Walker Capital Team

Lewis, Mike, Vickie, Helen