



The Markets

“Time heals all wounds” is a well-meaning cliché and, with a little tweaking, it can apply to how you deal with losses in the financial markets.

This popular quote implies that the simple passage of time has a healing quality. In reality, the healing quality comes from what you *do* during the passage of time. Likewise, investors who have lost money in the financial markets may benefit from the passage of time if they follow a few simple ideas.

First, understand that time is an investor’s potential ally, but not a panacea. The stock market has historically risen over a *long* period of time, but how long is long? As the table below shows, the S&P 500 index has a negative annualized return over the past 10 years. Time helps but you shouldn’t simply rely on the passage of many years to dig you out of a financial hole.

Second, understand that what worked in the past may or may not work in the future. When you have a major stock market dislocation like we’ve witnessed over the past 18 months, it makes sense to reevaluate your investment strategy. Different times may call for a different strategy. Evolving financial products may open up new opportunities. Incorporating what you learned from this bear market may help you profit from the next one.

Third, understand that training your mind is just as important as quantitative research. You can do great research and pick a winning investment, but if your emotions get the best of you, you could turn a great investment into a big loser. Those ugly twins – fear and greed – have a way of interrupting the best laid plans so they must be monitored.

The financial markets are a great teacher and if you want to be a great investor, you should never stop learning. As advisors, we use the passage of time to keep learning from the markets and we try to turn our learning into your profits.

Data as of 4/17/09	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	1.5%	-3.7%	-	-	-5.2%	-3.9%
DJ Wilshire Global ex US (Foreign Stocks)	2.7	-1.3	-45.0	-13.1	-1.1	-0.7
10-year Treasury Note (Yield Only)	2.9	N/A	3.7	5.0	4.4	5.2
Gold (Per Ounce)	-1.1	0.1	-8.0	12.3	16.6	11.8
DJ/AIG Commodity Index	0.4	-3.1	-47.0	-13.2	-5.2	3.3
DJ Equity All REIT TR Index	5.5	-12.5	-49.6	-16.6	-1.6	N/A

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Notes: S&P 500, DJ Wilshire Global ex US, Gold, DJ/AIG Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT TR Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not available.

PEOPLE DON'T USUALLY MENTION "VELOCITY OF MONEY" in everyday conversations, but this arcane concept is a driving force behind the government's massive stimulus program and easy money policy. Currently, the velocity of money – the rate that money in circulation is used to purchase goods and services – is low. This means people aren't buying stuff as frequently as they used to and that tends to slow down economic growth. By pumping more money into circulation and keeping interest rates low, the government hopes to encourage people to start spending money, which, in turn, should lead to greater economic growth.

Consider the following example: You earn \$100 and spend it on a golf lesson. The golf pro uses the \$100 to take his family out to dinner at a local restaurant. The restaurant owner uses \$85 to pay his expenses and then buys a book at the local bookstore for \$15 and so on. As you can see, the economy hums as the same \$100 circulates through the system. However, what happens if you earn \$100, spend \$60 on groceries, and save the rest? In technical terms, that \$40 not flowing back into the economy slows velocity and may lead to an economic slowdown. It can become particularly acute if the bank holding your \$40 gets stingy and decides not to lend it.

As American families reduce their spending, become more frugal, and save more, the economy suffers from the "paradox of thrift." While saving more may be good for an individual, if everyone increases their savings at the same time, it ends up reducing demand for goods and services, which leads to an economic slowdown.

With that as a backdrop, in late 2008, the velocity of money in the United States dropped by roughly 50% as consumers cut back and put more money in the bank. Since consumers aren't consuming like they used to, the government has

stepped in to fill the gap through stimulus spending and easy money. The "correct" rate for the velocity of money is a moving target and only time will tell if the Federal Reserve and the Treasury get it right.

Weekly Focus – Think About It

"We must use time as a tool, not as a crutch."

--John F. Kennedy

Best regards,

Jay W. Cohen, MPA, CPA, CFP®

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P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

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* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

* The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks.

* The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.

*Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

* Consult your financial professional before making any investment decision.

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