

STRATEGIC UPDATE

A Registered Investment Advisor
providing Financial Consulting
and Investment Management

to

Individuals, Families,
Small businesses, Non-Profits,
Retirement Plans
and
Endowments.

We have over 38 years of experience in providing financial consulting services. Through dedication, knowledge and consistency we strive to provide peace of mind as well as investment success to our clients.

A “SECULAR” VIEW OF THE ECONOMY

From the May, 2010 “Secular Forum” of the PIMCO organization, the premier fixed income management company in the U.S.:

Their stated bottom line is, “we are living through a remarkable time of change for the global economy and markets”. And, “we are heading to a world that is re-regulated, delivered, and growing less rapidly in the industrialized countries.” They observe that “politics matter a lot for markets and the economy.”

One of their guest speakers made the catchy observation, “The world is on a journey to an unstable destination, through unfamiliar territory, on an uneven road and critically, having already used its spare tire.”

“We expect systematically important emerging economies to maintain their development breakout phase, including a gradual broadening of the engines for income and employment creation.”

The robust developments in both the economy and the investment markets in the last year was noted, but they questioned “the robustness of the handoff in industrialized countries from temporary sources of growth (stimulus and inventory restocking) to sustainable drivers of growth and employment (final private sector demand)”

The picture is of a somewhat normal distribution curve and modified, in their opinion, for the future to one of flatter distribution of returns with fatter tails. That was their way of saying returns will be weaker with continued volatility and more frequent spikes (both positive and negative).

This observation was made: “Politics are not helping...Political parties seem more interested in accentuating differences rather than in agreeing on solutions.”

“The global economy has embarked upon a multi-year journey that is subject to many frictions and tensions...between cyclical tailwinds and structural headwinds, large and

small, old and new, Main Street and Wall Street, governments and markets, and core and periphery.”

Throughout the entire report there are several references to the expectation that emerging economies will perform noticeably better than the developed ones even though they may experience slower growth than in the last year.

Finally!

We have been saying for months that we were overdue for a correction of 10% or so in what has been a remarkable rally since March, 2009.

Well, we finally got it in May. It remains to be seen if that is all or whether there may be more downside from here.

Dow Jones 30 Industrials

May	-7.90%
Last 3 Months	-1.82%
Year to Date	-2.79%
Last 12 Months	+16.24%

Standard & Poors 500 Index

May	-8.24%
Last 3 Months	-1.34%
Year to Date	-2.32%
Last 12 Months	+15.50%

NASDAQ Index

May	-8.29%
Last 3 Months	+0.85%
Year to Date	-0.53%
Last 12 Months	+23.40%

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38 years providing investment advice

Why do croutons come in airtight packages? Aren't they just stale bread?

If people from Poland are called Poles, then why aren't people from Holland called Holes?

If it is true that we are here to help others, then what are the others here for?

What hair color do they put on the driver's licenses of bald men?

Is it true that you never really learn to swear until you learn to drive?

I thought about how mothers feed their babies with tiny little spoons and forks so I wonder, what do Chinese mothers use? Toothpicks?

Say "Silk" five times.

Now spell "silk".

What do cows drink?

Cows drink water. If you said milk, well...maybe calves, but cows?



To a Looooooooooooong and Healthy Life

When Juan Ponce de Leon was traveling about Florida looking for the Fountain of Youth, he must have been relatively young himself. Old geezers wouldn't have had the energy to do all that tramping about, avoiding alligators, insects, and Mouseketeers. If you ask someone today, "Would you like to live to age 100?" they picture what today's elderly, infirm person looks and feels like. They fear ending up like the Greek myth of Tithonus, who was granted eternal life but not everlasting youth and ended up miserably withered forever.

Around This Corner

What if the question was changed to, "Would you like to add another ten or twenty years to the middle of your life so you reach eighty or ninety in the same condition that people generally are today at around sixty or seventy?"

Such a change would have a profound impact upon many areas of life, including economic conditions. Planning for retirement would require even more resources than it does now. Social Security would go broke...which it may do anyway!

Be careful what you wish for because there are at least four drugs that have the potential for such a breakthrough change. They are all based upon the findings of a research scientist at Cornell University in 1934! That's right, the discovery was made nearly eighty years ago, but it was so bizarre at the time that it sat on a shelf until the 1990's. When you hear how it works, you will see why no one wanted to pursue it. The lab mice in the research project who were put on near-starvation diets lived nearly twice as long as their life expectancy! Since lots of people were nearly starving in the depths of the Depression, no one wanted to voluntarily starve; the idea was extremely unappealing at the time.

The drugs under scrutiny today are showing promise in Caloric Restriction or CR. One is called **Rapamycin** and is derived from Easter Island soil bacteria and originally designed to help prevent rejection of transplanted organs. The second is called **Resveratrol** and comes from the skin of grapes. You've probably heard of the benefits of grape as in wine. Well, this drug holds promise although not as much as rapamycin. **Metformin** is derived from the French lilac plant and was originally developed for diabetes. It has shown an ability to boost life expectancy. **Mannoheptulose** comes from avacados and is a sugar that has multiple CR-like effects in rodents.

So, I guess we should be eating avocado sandwiches but only one bite per meal.

The Runaway Train Called Roth

As we approach mid-year, it is now a good time to review some of the advantages and disadvantages of converting an IRA or some other type of retirement plan into a Roth. Note that this has nothing to do with contributing to a Roth IRA, only converting into one. First, don't do it unless you have money somewhere to pay the tax on the conversion. Second, keep in mind that if tax rates, your income, and future withdrawals are the same, there is no benefit to converting. At the end of the (gulp) day, your net will be exactly the same. So, before you go to the time, effort, and expense of converting, do the math. Ask for help. Call this office, and ask for Phil.

A Montana rancher got into his pickup and drove to a neighboring ranch and knocked on the door. A young boy, about 9, answered the door.