

Economic **ECONOMIC UPDATE**



Economic Update

Ken Carter, Chief Economist & Charlene Carter, CFP®

We know everyone has an opinion about the market and the economy. Our job as your advisor is to provide insight and turn turmoil into opportunity.

The economy is certainly slowing and markets are extremely volatile. However we do not see the doom and gloom often expressed in the headlines. Attention is focused on the negative while ignoring the whole picture. The remainder of 2008 will most likely be an emotional roller coaster as the markets digest the fallout from the mortgage and derivative turmoil.

The aggressive lending strategies in the mortgage markets fueled unprecedented borrowing practices in the public sector. The recent activity by the Federal Reserve essentially prevented the economy from suffering a fatal heart attack brought on by the hardening of the credit arteries and a market failure. It is our perspective in the coming months the markets will adjust to these changes and in the long run loan practices, values, and prices will adjust accordingly.

Turmoil often presents opportunities and this is certainly true in this market. We are seeing a multitude of investment possibilities that we have not seen in many years. The municipal bond market in particular has been affected and bond values have been pushed down to record lows, providing a window of buying opportunities. Equities, and specifically the financial sector, are down substantially. From our vantage point, we would suggest that you use this economy and this market downturn to your advantage, wealth can be made by buying in a down market.

Perspective on Recession:

Definition of Recession

Recession

Negative GDP* for 6 months
High unemployment
High interest rates
Tight credit markets
Tight Federal Reserve Policies

Current State of Economy

0 Months of negative GDP
95% employment
2.25% Federal Funds Rate
Liquidity remains strong
Fed Policies very aggressive

* GDP (Gross Domestic Product)

What Should Investors Do?

Accumulators:

1. Accumulators are buyers and the markets are a relatively good value at this point. We strongly encourage investors to trust their money managers and allow them to use this downturn as an opportunity.
2. This is not a time to sell on emotion, locking in losses and depriving yourself of the opportunity to recover your value. Stay with your current asset allocation or revisit your financial plan with your advisor.
3. This is a good time to collect shares by adding to your holdings. Making contributions to your IRA, Roth and college savings accounts will be extremely positive when the markets rebound. In volatile markets, like this one, we often see fast and steep recoveries that are impossible to catch if you are not investing systematically and according to your plan.
4. We have always encouraged monthly systematic savings and this is a prime time to get started or increase your contributions.
5. Increase your savings at work; even a small increase can make nice gains in the future.

In summary there are many buying opportunities in this market, take advantage of them.

Retirees and fixed income investors:

1. It is extremely important to be patient during this down market.
2. We encourage retirees to keep their portfolio withdrawals between 4% and 5%. With inflation averaging 3% (and possibly increasing) your portfolio will need to make 7% to 8% to hold its value.
3. During a down market it is always smart to lower your withdrawal rate if at all possible.
4. Most retirees need some growth in their portfolio to keep pace with inflation and taxes. It can be catastrophic to sell a growth position that is down. Locking in losses and moving to a more conservative holding means your portfolio value cannot recover as the markets recover.

In summary, be patient and stay with your plan. Please call us with concerns and questions.