



1400 Computer Drive | Westborough, MA 01581 | 508.475.3880 | 508.616.4431 fax | www.ccrwealth.com

CCR Wealth Management Portfolio Strategy & Outlook; 2010

REVIEW: Dow Jones: 10568.50 S&P 500: 1136.22 as of January 6, 2010

***“A cynic is not merely one who reads bitter lessons from the past,
he is one who is prematurely disappointed in the future.”***

-Sidney J. Harris

The Dow Jones Industrial Average traversed over 4154 points in 2009—equating to a 64.36% rise from the March lows—accomplished in less than 9 months! While we were surprised the markets went on to establish fresh lows early in 2009 from the November '08 bottom, we're quite satisfied with the rebound and absolute performance of most investment indices, including major commodity indexes—a topic we've visited frequently in our periodic Outlook communications. For the year, all major oil, precious, and base metal indexes either exceeded, or *far* exceeded the major developed global equity index universe.

As historic as the toppling of the capital markets was in 2008 and into March of 2009, so too has been the recovery. We think it's important at this point to briefly assign some reasoning (with the benefit of hind-sight, of course) to what brings the market back to where it is—lest we begin pondering the future without historical context. We would attribute three primary catalysts to this recovery:

First; **Physics**. A pendulum can only swing so far in a given direction without a nearly equal reaction in the opposite direction. In this vein, it strikes us that the “last leg” down in the market (some 1500 points off the Dow from February to March) had as its catalyst no more than a confusingly worded response from the newly confirmed Treasury Secretary in front of Congress, and a nervous investment audience.

Second; **Interest Rates**. After reaching a point when stocks found interested buyers—it is our impression that much of the net upside in this market has been liquidity-driven, as there has been very little earnings optimism expressed with individual earnings results or outlooks. Consider that cash was essentially earning 0%, Treasuries yields were anemic, corporate bond holders risked losing *everything*, but 8-9 months ago, the S&P 500 had a dividend yield of over 2.50%. Quite attractive, given the alternatives!

Third; **Housing**. Last January we wrote; “...we cite the importance of housing data by mid 2009 as potentially a make or break for any market recovery later this year”. Indeed, it is clear that the housing issue remains—and will remain—a thorny concern over the long term. The Federal Housing Tax Credit enacted by Congress—along with its extension and expansion later in the year has put a floor (if temporary) underneath much of the more troublesome US housing markets. We grant that this was a highly beneficial stop-gap measure by Congress as it helped solidify a return of confidence to the capital markets. *We do, however, remain concerned at the lack of any organic improvement in this important economic sector, along with the willingness or ability of the Fed to continue supporting artificially low lending rates.*

WESTBOROUGH

BOSTON

GLASTONBURY

PROVIDENCE

Securities offered through multi-Financial Securities Corporation, Registered Broker/Dealer, Member FINRA/SIPC.
Investment Advisor Representative. CCR Wealth Management, LLC. Registered Investment Advisor.
Multi-Financial Securities Corporation and CCR Wealth Management, LLC are not affiliated companies.

OUTLOOK:

“In preparing for battle, I have always found that plans are useless, but planning is indispensable”

-Dwight D. Eisenhower

We survey, study, sample and seek a variety of viewpoints across the investment universe on a regular basis. Sources include media (and yes, we include the punditry), journalists, economists, purveyors of opinion as well as reporters of fact—and perhaps most importantly, *our own clients*. We must also give great weight to our own collective experience—and interest in historical patterns and precedent as it relates to the intersection of politics, economics and capital markets.

Dwight Eisenhower’s comments above are of interest to us now as we ponder a more cohesive consensus that has grown out of last year’s chaos. We’ve stated before that consensus makes us nervous—but there is a logic behind much of it that is difficult to refute.

ECONOMICS/UNEMPLOYMENT:

Consensus seems to suggest that economic activity improves in 2010—and therefore the stock markets should follow suit. Recall though, *markets* are the leading indicator—not backward-looking economic evidence. We’re also hearing more and more predictions (and echoes thereof) for an improved employment picture in the months and quarters ahead.

- *With the official unemployment figure hovering at or above 10% for the past 3 months, we suppose a sense of optimism is inevitable—simply because the unemployment rate seems to have stopped climbing. But it should be reiterated here that (1) the actual unemployed or underemployed numbers approach 17%-not 10%, and (2) we have always been an economy whose primary growth engine has been the consumer—who remains crippled by income-instability.*
- *We believe the “jobless recovery” pattern established during the last two recessions (2001, 1991) is a reasonable template to assume, and that current “official” unemployment as reported by the Department of Labor will average 10%-11% longer than the consensus indicates—perhaps into 2011. Unemployment is a very lagging economic indicator, and we believe the depth of the problem is generally underreported in the media.*

- *It is probable, in our view, that the impact of the unemployment rate will be felt most acutely in the quarters ahead as the impact of Government “stimulus” runs its course and eventually wears off.*

Ultimately, we are less optimistic than the consensus with regard to any near-term, dramatic improvement in the US unemployment rate.

INFLATION:

The topic of inflation—and *its inevitability*—seems to command the broadest consensus among investors in our assessment. The conclusion that inflation lurks just around the corner is reasonable given both the sharp rise in the price of gold and silver, as well as the resumed decline in the value of the Dollar vs. a basket of other major currencies (excepting last years “flight to quality”). Additionally, we are all aware of the fiscal and monetary gyrations that have flooded the global economy with Dollars (and debt) in an effort to both increase liquidity, and to “stimulate” spending. But there are a few paradoxes within some of the assumptions many investors hold for granted;

- Currently, there is no inflation (as measured by the Consumer Price Index). The 12 month CPI increase for the prior 12 months was 1.8% (through November '09, December figures will be released January 15). By historical standards, and factoring in the ailing housing market—we continue to verge on a *deflationary* rather than inflationary environment.

Note that markets are forward-looking mechanisms, in which supply and demand battle daily to set the price of what is being traded. Demand for gold and silver (among other commodities) has been fueled by these expectations of inflation, not actual inflation. But we do see a paradox inherent in an almost deflationary price-environment, expectations of continued high unemployment, and an imminent inflationary threat being foretold by soaring precious metals prices.

- Many expect an imminent tightening of monetary policy by the Federal Reserve to combat inflation (which, again, doesn't currently exist). Indeed—we've even seen a change in bond price trends in recent months that would suggest (as with precious metals/inflation above) an expectation of a Fed rate hike in the near future.

The paradox, of course, is a simultaneous expectation of inflation & higher interest rates. The two do not comfortably co-exist for long.

CCR Wealth Management does not currently expect an imminent—or at least meaningful—hike in the Fed Funds Rate from its current 0-1/4% in 2010. It would take immense political will and independence to raise rates give the current (and in our view, continuing) unemployment environment. Of course rates set by the market (and we are primarily referring to the bond market) will queue off of the supply/demand

relationships—in turn fueled by expectations, much like the inflation dynamics discussed above.

Ultimately, adapting Eisenhower’s “*indispensable planning*” in our view, involves reminding ourselves of exactly what is affecting the prices of our investments. The price of stocks, bonds, gold...*and everything else for that matter* are driven by the immutable laws of supply and demand. It is the *expectations* of certain outcomes (consensus) that may end up at odds with reality later this year. “*Planning*” must handicap the possibility of a change in consensus.

CCR WM OUTLOOK

Portfolio Strategy, January 2010

US EQUITIES: CCR Wealth Management’s model portfolios favor *growth* over *value* equities with a definitive bias. Within the *value* universe—we recommend a weighting in energy, and continue to steer clear of consumer-driven and banking sectors in general, due to our trepidation concerning unemployment, and commercial real estate issues, respectively.

Our broad index model has increased the allocation to small cap equities (vs. 12 months ago), and is subject to a further increase as we continue to assess the disposition of the economic cycle. Small company stocks tend to do well in early-cycle economic conditions—but we remain concerned with both the availability of credit, as well as the comparative benefits reaped by large-cap exporters in the current weak-Dollar environment.

NON-US EQUITIES: *The most notable evolution in our thinking—and our investment philosophy over the past year pertains to the non-US equity allocation (as a percentage of total equities), and most specifically, the role emerging markets should be playing strategically in most portfolios.*

In equities, we measure the “investable universe” using the **MSCI All Country World Index (MSCI ACWI)**, which essentially contains all stock markets globally in relation to their market cap ratio to the whole.

Traditionally, investors have weighted their portfolios substantially in US equities, included a “smattering” of the non-US developed countries (primarily European and Japanese), and included the Emerging Markets universe as an exotic, exciting, yet perilous addition—relegated to minor exposure due to its volatility, both real and perceived.

Emerging Markets countries, however, represents almost 16% of the MSCI ACWI. Despite the actual volatility of these economies and markets, it must be pointed out that the broad-based MSCI Emerging Markets Index is up on average 15.51% for the last 5 years. The MSCI BRIC index (a subset within the EM universe—Brazil, Russia, India, China) is up 22.97% (average annual) for the last 5 years, ending December, 2009. Compare this with the S&P 500 which is up 0.42% (average annual) over the same period.

Volatility?

CCR Wealth Management is adjusting our broad asset allocation models to accommodate a baseline exposure to the Emerging Market universe (as a percentage of equities) equal to MSCI ACWI index weighting of 15%. We grant that portfolio volatility must first be reconciled with our client's financial objectives, risk requirements, and risk tolerance. We must, as investors, *embrace* rather than *nibble at* what is certainly the future of the global marketplace.

We may make recommendations adjusting overall equity weightings in relation to fixed income on a per-client basis to accommodate this increase.

FIXED INCOME: Throughout much of 2008 we expressed nervousness with the state of the non-Treasury bond market, and suggested trading yield for stability. In our May 2009 Outlook, we reversed course and highlighted what we perceived to be exceptional value in the Corporate bond market, which featured historically high yields in a bond market that was decimated right along side the stock markets.

As we have previously discussed, supply and demand in the market place is affected by *expectations*—and thus we have tempered our expectations for general bond market performance in 2010. Again, inflation may not exist currently, and may not even appear this year, but that will not necessarily prevent bond prices from reflecting investor's *fears* of inevitable inflation.

The Corporate bond market's fairly spectacular recovery last year has returned this asset class to what we consider to be a "mature" status, but we are loathe to bow to "consensus" to the extent of selling what could prove to be truly exceptional yields purchased in the bond and bond fund market early last year.

In general, CCR Wealth Management's current approach to the fixed income market is to ensure our portfolios:

- Remain diversified across the broad range of credit qualities
- De-emphasize the long-end of the maturity/yield curve
- Retain a "center of gravity" in the corporate, mid-range credit scale (BBB+/AA)
- Include a meaningful non-US bond allocation

TIPS: Treasury Inflation-Protected bonds have received much press of late due to the general perception of imminent inflation. TIPS are U.S. Treasury bonds whose principle is adjusted



according to changes in the Consumer Price Index—which has the effect of generating different amounts of interest annually, due to these adjustments. TIPs exist in 5, 10 and 20 year maturities, and most popularly are accessed via mutual funds and ETFs.

CCR Wealth Management has and continues to make use of this fixed income investment. We believe a general note of caution is warranted, though, given the popular press TIPs have received of late. CPI-adjusted or not, these are Treasury bonds. As such, they will not defy gravity should investors decide to flee the bond market!

COMMODITIES: CCR Wealth Management maintains a healthy allocation to commodity ETFs and mutual funds. We continue to believe this is an important asset class for most investors to embrace strategically.

We have shifted primary weighting within this asset class from gold to oil in our models.

We remain generally bullish on precious metals; however, we find that oil's economic application (in addition to its inflationary-hedge qualities) is an added benefit as we anticipate an *eventual* return to economic growth in the US. On this note—we also must acknowledge the *current and continuing* growth emanating from the BRIC countries—particularly China—which, coupled with a weak Dollar, should see oil prices higher this year.

Securities offered through Multi-Financial Securities Corporation. Registered Broker/Dealer, Member FINRA/SIPC. Investment Advisor Representative, CCR Wealth Management, LLC. Registered Investment Advisor. Multi-Financial Securities Corporation and CCR Wealth Management, LLC are not affiliated companies.

The views are those of CCR Wealth Management LLC and should not be construed as specific investment advice. Investments in securities do not offer a fixed rate of return. Principal, yield and/or share price will fluctuate with changes in market conditions and, when sold or redeemed, you may receive more or less than originally invested. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. Additional risks are involved in international investing, such as, currency fluctuation, political and economic stability and differences in account standards. Investors cannot directly invest in indices. Past performance does not guarantee future results. Securities offered through Multi-Financial Securities Corporation. Registered Broker/Dealer, Member FINRA/SIPC. Investment Advisor Representative, CCR Wealth Management, LLC. Registered Investment Advisor.

Multi-Financial Securities Corporation and CCR Wealth Management, LLC are not affiliated companies.