

**CCR Wealth Management
Portfolio Strategy & Outlook;
September, 2009**

Review: Dow Jones: 9605.41 S&P 500: 1042.73 September 11, 2009

Spend any amount of time observing investors (measured in decades, not years), and you'll notice most investors need to re-learn "the basics" at least once every investment cycle—and perhaps more often. Ideally, *greed* and *fear* will balance themselves into a moderately allocated portfolio (moderately aggressive or conservative) that should enjoy much of the upside of a bull market—but won't participate, pound-for-pound, in the downside of the Bear.

Instead—given a long run-up, or a brutal and extended downturn, investors tend to stack their chips wherever the prevailing wind tells them they are favored. In today's wired world—one doesn't have to spend too long on CNBC.com, or even Google to find justification for a mind that's already made up, and responding (most likely) to either greed or fear. We make these observations while shifting to assess the current state of the capital markets; where they *are* vs. where they've *been*.

Today, the Dow Jones Industrial Average and the S&P 500 stand roughly 10% & 8% below the half-way point from their 2007 highs, and their March 9, 2009 lows, respectively. Turning our attention to the most recent economic report, August Non-Farm Payrolls, we make the following observations:

- US Unemployment rose to 9.70% in August, with an officially recorded decline of 216,000 jobs for the month.
- Splashy headlines and media hyperbole aside, while the unemployment count in America approaches 15 million, only about 7.4 is attributable to this recession (we were never a fully employed nation).
- The GOOD news; the velocity of job-loss has slowed considerably (this was the smallest decline in payrolls in a year).
- The BAD news; the *real* unemployment picture is likely higher—but not measurable—as discouraged workers who have been out of a job for a year have likely stopped looking for work (subsequently falling off the "radar").

What are the economic—and thus, investment implications of these statistics? In our view we finally believe the glass to be half-full, *provided investors apply the lessons they should have taken away from the past year's market gyrations regarding asset allocation.*

- Yes, 9.70% unemployment is high—a 26 year high, in fact. Real unemployment is likely 10% or higher, and the "official" rate will possibly breach 10% in the months ahead (and

possibly plateau there well into 2010). But economically, we think we're seeing a "troughing" process, as the rate of decline slows.

- We've frequently alluded to the fact that the equity markets are forward-looking mechanisms over the past year. In this vein, the current employment news was reflected in the March 2009 market levels. Even a correction from current levels still bodes well for future economic improvement, and reasons for optimism.
- While the NBER (National Bureau of Economic Research) officially views the Non-Farm Payroll Report as a "coincident" indicator, in reality employment did not rise for one full year since the NBER declared the last recession (2001) over, which makes fretting about current rates unhelpful in recognizing value in the markets today.
- The velocity of the market's rebound from March strongly suggests to us that corrections lie ahead.

In our view, investors should, on average, be optimistic on stocks—even after the summer run-up to current levels. But economics (and specifically, unemployment) will likely remain a business drag for some time to come. US economic activity, after all, is driven some 70% by consumers.

The Barclay's Aggregate Bond index has a 3 year aggregate return of 6.43%. A meaningful allocation (corporate bond prices reflect as much value as equity prices, in our view) to this asset class over the long term should alleviate inevitable equity corrections. We have written frequently this year about our bullishness on the *corporate* bond market. The high-grade corporate bond universe (as measured by the Markit IBoxx (USD) Investment Grade Corporate Bond index) is up 10.22% through August 31.

Inflation:

CCR Wealth Management, as has been stated before, is not in the business of trying to predict the future. Rather, we find it much more elucidating to consider factual market, economic and even political current events through a historical prism in order to *gauge* future *possibilities*.

Consensus makes us nervous. Or perhaps, *being in* consensus causes this anxiety. In either case, it can not be ignored that vocal prognostications of future inflation have been on the rise.

An excerpt from our January 9, 2009 Outlook:

...the US has flooded (or promised to flood) the global marketplace with Dollars to make good on commitments made thus-far for the TARP and other obligations. This, of course, will cheapen the dollar—though it remains to be seen whether this weakness will be most expressed against other major currencies. Our view is that, absent any monetary discipline (and with no fiscal discipline

likely in the new Congress), the weak dollar will manifest itself most prevalently against hard assets—commodities.

Historically, gold has been a lousy long-term hedge against inflation. The 1980 inflation adjusted peak for gold was around \$2,145 per ounce. However, gold has typically spiked with inflation—and other crises—as investors seek the “currency of last resort” when the Dollar’s strength is battered.

Oil has nose-dived from \$147/barrel to around \$40/barrel in less than 7 months. While we had no confidence that \$147 reflected economic reality, we are equally skeptical of its current price range. Oil is an important hard-asset, traded globally in US Dollars, and has been subject to wild swings of the pendulum. Additionally, oil is uniquely sensitive to supply constraints and geopolitical tensions. We believe the truth lies somewhere in the middle—which could mean substantial upside from current prices.

Fast-forwarding to September, the US Dollar has declined roughly 9.35% against the currencies of our biggest trading partners (on average), oil is up roughly 80%, and gold has risen roughly 18%—most recently breaching \$1,000 an ounce for the second time in as many years.

Turning to current events—we believe investors can not ignore the public and “private” grumblings of our nation’s biggest creditor (China)—particularly after the US Treasury began to “monetize” additional debt through a bond-repurchase program in March. While it would not be in China’s interest to “dump” US Treasuries—plenty of anecdotal evidence seems to point to a new Chinese appetite for gold.

Additionally, our European partners (most notably France) have repeatedly called for an alternative or “rival” currency reserve to the US Dollar.

So, *despite* our unease with the consensus of future inflation, *despite* the current relative lack of inflation (though its measure is perhaps a future topic to explore) and *despite* the year-to-date decline of the dollar and subsequent appreciation of hard assets, CCR Wealth Management’s belief that investors should have meaningful participation in alternative asset classes like commodities is reinforced.

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