Half Time Adjustments and Cash is Trash

For 2009, six months are in the books and it is half time for a market that has been both very weak and very strong. In sports jargon, great coaches are those that can make the necessary adjustments at halftime, based on what went right, and what went not so right. The great coaches can find solutions and fix any problems without making long winded speeches or melodramatic gestures. As investors, we also need to react to any changes in our game plans and make the necessary adjustments to our portfolios.

For the record, the first six months of 2009 look like this. January finished as the worst January in history for stocks and investors fled equities culminating in a multi-year low on March 9th. Like a Phoenix, rising from the ashes, stocks rebounded strongly from that point on and at the end of six months the Dow is lower by about 5%, the NASDAQ is higher by about 15%, and the S&P 500 is almost unchanged. The second quarter bounce was the best showing in stocks since 2003. Emerging markets and commodities, led by oil, surged in the second quarter as the dollar slid to new lows. While this played out, short term interest rates have dropped to zero percent. What do we do now?

Cash has become trash. The yield on money market rates is now about 1/10th of 1 percent. In other words, a $200,000 investment in cash will yield about $8 per month in interest. The government, in the first, of what may be several, stimulus attempts, has taken interest rates to zero to save the banking system and to save the economy from depression. By throwing, at some estimates over $10 trillion, dollars at the problem, the US government has most likely saved the country from a really nasty economic debacle not seen in 70 years. With this action though, the potential for much higher interest rates, much higher hard asset inflation, and a slower economic recovery has dramatically increased. This government action may result in the following opportunities for investors…

1) The yield curve has steepened and for most conservative investors, CD's going out 3-10 years now offer yields that are significantly higher than short term money markets and cash. A disciplined, laddered CD portfolio makes sense today.
2) Even with the implosion of California, municipal bonds offer extremely attractive yields and appreciation potential. Many of these issues will not be for the faint of heart over the next 3-5 years, but we believe patient, income orientated investors will be rewarded by municipal bonds.
3) Hard commodity plays, like oil stocks and their support companies (drillers, infrastructure, etc.), and businesses involved with real assets, (think grains, steel, and paper) will be rewarding.
4) Growth may come from outside the US, so Emerging Markets mutual funds may be a place to increase your allocation.

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5) With a falling dollar, International Bond funds could also benefit from the investment end-game that we anticipate.

These are just a few of the ideas that may impact investment performance over the next several years. At the very least, cash investments like money markets can be converted into interest bearing investments like CD's. This is half-time, and we have stocks showing a mixed result and cash being trash. The opportunities that present themselves during the second half could very well define the performance of your portfolio for years to come. Have a safe and happy summer and we look forward to serving all of your investment needs.

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