



## **Market Commentary May 2010**

### **Complacent No More**

Complacency has long been a concern of mine. When the VIX is relatively low as it had been through the first four months of 2010, the chance of an abrupt panic is always likely. Call it what you will but I saw last week's one day 1,000 point drop in the Dow Jones Industrial Average as a panic! Maybe there was some monkey business going on but the fact remains that the market dropped and investors panicked. The VIX is no longer low and volatility is once again king! As of this morning, the DOW has experienced moves of over 100 points in 11 of the last 14 trading days. I have a very hard time buying stocks in this type of stock market environment.

As you know, I have been looking for the straw that would break the market's back. I have identified many possible "straws" in past commentaries including; the disconnect between the stock market and the economy, the structural weakness of the U.S. Dollar due to the mountain of debt issued by our government, the associated inflation potential due to dollar weakness, an unemployment rate that will stay stubbornly high for a long period of time, and the very real risk of the wheels coming off the Chinese economy. So which "straw" started the panic? None of them. Instead, Greece dominates the press with their fellow PIGS (Portugal, Ireland, Greece, and Spain). The debt meltdown in Europe has become the straw of the day and it is doing a fine job to create a correction. But just because the other straws are not in the headlines doesn't mean that they don't exist. We still have 15 million people in the US that are unemployed. This doesn't include the unknown millions that have given up looking for a job or those that are under-employed. And housing market is still get worse not better.

So how does a mild mannered, honest financial planner try to make money in this type of market? For starters, buying the dips is not my idea of a good time! The old saying goes that buying stocks while they are going down is like trying to catch a falling knife. I would add my own paraphrase to this saying. Trying to buy the bottom of this market is like trying to catch a falling knife while others are throwing daggers at you! I believe that the large allocation to cash that I have in my model portfolios will pay dividends relative to being fully invested in a time like this.

There will be time to add to our domestic stock allocation but this ain't it. The premium of being able to sleep through the night and letting the gunslingers try to make money by trading this market is valuable. When the smoke clears, we should be able to add to our favorite US sectors (technology tops this list) at reasonable prices.

Outside the United States, I like major manufacturing countries, such as Germany. The chaos in Europe has led to a strengthening of the US dollar relative to the Euro. This will help Germany and France. However, their banking sectors have a ton of exposure to the debt of the PIGS so stick with the manufacturing industry for now. Beyond Europe, countries with vast natural resources (Australia and Norway), and developing countries with young populations and governments that promote advancement (India and Brazil) are very appealing. These countries should be the winners during the next few years. The real question is how best to invest in them. For that, contact me directly.

Leaving the market behind, the Spring is a great time to reconcile what you own and where you own it. All of you should have a stack of statements that you used to prepare your tax returns. Before you throw them in a drawer, take a look at them and figure out where your money is invested, where it is not, and how many different brokers you are currently using. Owning the same stocks in different accounts with different brokers is not diversification! Here is another list of tasks that you should consider with last year tax preparation fresh in your mind:

1. Start or increase 529 plans for your children.
2. Make your 2010 IRA contribution – There is no reason to wait until the end of the year.
3. Review your asset allocation – Can you take another hit like you did in 2008?
4. Consolidate your accounts. Reducing the number of accounts that you have and the number of brokers that you are using will make next Spring a lot easier than this Spring if you have less documents to deal with.
5. The Start or increase an Automatic Investment Plan.
6. Review all automatic debit plans.
7. Create a charitable donation budget based on last year's donations.

I hope this list helps you create your own financial to do list. Once created, make sure you check off your accomplishments. If you need help with any or all of this, I am just a phone call or email away!

As always, feel free to contact me with any questions or comments.

Happy Spring,

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