



What's New?

Feddern Financial Consulting Group Newsletter

October 3, 2009

KEYS TO THE BEGINNING OF A RECOVERY:

- 1. The Real Estate market must stabilize. If not reversing, at least not continuing to fall. NEW HOUSING STARTS UP this Spring and Summer because of seasonal factors but inventory still huge! The Nationwide COMMERCIAL COLLAPSE IS JUST BEGINNING!**
- 2. Unemployment must stabilize. If not reversing, at least not continuing to rise. Last report was lower! IT'S ACTUALLY NOT WORSE as a "%," Back to 9.4% - BUT IT CONTINUES TO MOUNT @ OVER 300,000+ weekly.**
- 3. Corporate Earnings (profits) must stabilize. If not reversing, at least not continuing to fall. A FEW POSITIVE SIGNS but mainly in TECHNOLOGY.**
- 4. Banks must begin to make loans again (especially to small businesses and potential home owners...albeit under ancient premises of buyers being qualified and of all things, a down-payment! Lots of "hoopla" from the mega banks, but it appears that there's no real progress. They're "hoarding" any cash they can get their hands on. And now here comes the Regional problems compounded by PRIME loan and Alt-A resets!**
- 5. The DOLLAR has to decline. It's started!**
- 6. Auto sales must stabilize at some NEW level. Maybe started but I doubt it!**
- 7. The consumer must get "back in the game of consumin'" NO WAY!
ANALYSIS OF THE ABOVE: No Real Hope YET! -10/3/2009**

A "Cover-the-Waterfront" Diatribe

As we write this missive, the third quarter has ended in what continues to be a most eventful year for the stock markets and the economy.

It's also one year since the weekend that shook the foundations of Wall Street and of the global financial system – when Lehman Brothers collapsed, Merrill

Lynch vanished as an independent entity and AIG was taken over by the U.S. government.

In light of that, I believe it is important to briefly summarize where we've been this year, where we are today and the prospects for the period ahead – and also to highlight some lessons from last year's financial collapse.

Where we've been

Six months ago, in early March, it truly did feel like the world might be coming to an end – talk of a return to a Great Depression-like economy dominated the media. Understandably, fear was rampant – and stocks responded to these nightmarish scenarios by hitting the lowest levels in years, with financials especially hard hit.

Although no one knew it at the time, that turned out to be the bottom. Since then, the economy has moved back from the precipice – there is a growing consensus that we'll return to economic growth in the second half of this year. The Economist recently ran a cover story discussing the extent to which the economic recovery is being led by Asia.

As a result, we've had a strong surge in markets – from their bottom in the beginning of March, stock markets are up over 50%, retracing but a portion of the losses since last fall. If you go to our website www.fedderngroup.com Kendrick has constructed a calculator where you can put in your percentage loss and then it will automatically tell you what needs to be gained **JUST TO GET BACK TO EVEN!**

Here are six lessons from the last twelve months:

1. We were reminded of just how volatile investments can be.
2. And of the importance of risk management beyond just diversification.
3. Many investors discovered that they're less comfortable with losing money than they had been led to believe by their so-called financial advisor.
4. Investors were also reminded of the need to focus on what they can control – understanding their cash needs and thinking through how much loss they can tolerate to fund those needs.
5. In some cases, investors began their rethinking their retirement plans as a result.
6. Finally, we were reminded that in today's world, we need to expect the unexpected **AND** prepare for it!

Where we are today

Two years ago, the market was characterized by rampant optimism. The U.S. market had hit a new high in November of 2008 and any concerns were set aside as minor annoyances.

By contrast, six months ago the market was overwhelmed by absolute pessimism – there was no sign of hope anywhere.

Today, the market, as witnessed by advisors, is somewhere between those two extremes and many investors can be characterized as extremely nervous, **AS THEY SHOULD BE!**

As a general rule, a certain level of healthy anxiety could be positive – what gets investors in trouble is an excess of either optimism or pessimism. While today's mood is pessimistic, being cautious in the current market makes sense ... provided that prudent caution prepares you for appropriate decisions

The good news is still few and far between. The old saw that “there are still excellent opportunities for investors who are prepared for short term volatility” is simply ignorant of the real world! We spend a lot of time listening to the best market minds and to other managers who have lived through multiple cycles. We are amazed that some say that they are “still finding very good value” – certainly not to the extent that they did earlier this year, but still well ahead of what they would have seen a year ago.

The outlook going forward

In August, Business Week ran a cover story called “The case for optimism.”

The premise was simple: “Beyond the issues facing the global economy, there are many underlying positives that give cause for optimism if we look out two or three years or beyond.”

Powerful forces under the surface will drive the economic growth even more down the proverbial tube ... and the lack of real economic growth will drive stock prices lower by Christmas. How's that for putting our head on the chopping block? Yes, we certainly could be wrong. But if we are, you'll just miss some kind of opportunity. But if the other side is wrong, you'll just **LOSE MONEY!**

Risk Masquerading as Volatility

Let's close by talking about market RISK vs. VOLITILITY. When the financial types talk about volatility, they make it seem like its something you just need to "get through" like taking your medicine. WRONG!

You don't need to participate in their volatility program! It's just not necessary! All of this stems from their dedication and adherence to Modern Portfolio Theory. Harry Markowitz's theory has morphed into a simple Buy 'n Hold discipline that simply lacks discipline! The premise of holding on to losing investments is so foreign to us that it makes us sick!!

But here's some of the quotes that are used in defense of the indefensible:

In 1907, U.S. financier J. Pierpoint Morgan single-handedly averted a banking panic among U.S. investors.

Later in life, someone asked him his best guess as to the direction of markets. His answer: "They will go up and they will go down."

Direction of portfolios

In the meantime, my team and I are constantly looking for opportunities to realign portfolios to give our clients the best tradeoff between risk and return. Given the current uncertainty and volatility, we are continuing to focus on protecting the downside.

Over the past bit of time, I've discussed with anyone who'll listen the absolute "irrational exuberance" of the current situation. If I missed you for some reason or you would like to discuss any aspect of portfolio management in more detail, I am always delighted to have that conversation. Be forewarned, we are grossly opinionated in our belief that it is far more prudent to mitigate the downside than to chase the upside. Our website gives you our Mission Statement, Belief System, and an explanation of our 1%@Risk methodology –

www.fedderngroup.com. - END

All of our past Newsletters are available on our Website at:

www.fedderngroup.com

We continue to receive more and more inquiries about our Down-side Risk Management disciplines along with our group of recommended money managers. We appreciate your "referrals." It's the main way we continue to build our business.

Call us anytime: 502-442-0363 502.442-0363 Direct 800/258-1502 Toll Free 502/442-0365 Fax 502/552-2049 Cell

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