

MONEYWATCH

ADVISORS

Newsletter to Clients

July 2010

Picture in your mind a nuclear-powered aircraft carrier, measuring over three football fields long, cruising at top speed, over 40 miles per hour. Now imagine that for some unforeseen reason the ship suddenly loses all power and coasts. Imagine how long it would take or how far it would move before the ship would come to a halt.

The United States economy is not unlike the aircraft carrier. We don't know why it lost power and we could not know exactly when the slowdown would end. We do know that when the aircraft carrier regains power it will take considerable time to reach maximum speed. We believe the American economy hit its slowest speed and is beginning to pick up momentum.

As I type this message I listen to Paul Krugman, a widely-read, eminent Op-Ed New York Times columnist and Noble Laureate economist suggesting our Government will have to supply more stimulus to help the aircraft carrier pick up speed. Otherwise, he believes, the economy may simply suffer very low growth while we citizens wait for our homes to regain some value and earn higher income from our work. Whether the stimulus is required or not, provided or not, I too believe the recovery will be slow.

A slow recovery is more typical of a severe recession, such as we have experienced. True, our recent (twenty-five years) experiences have been different. Swift recessions followed by strong recoveries have been the norm. The recovery from the ugly slowdown of the late seventies/early eighties was pretty slow and rather ugly, but few people remember that experience. I do remember, mostly because the investment business is and has been my life since I entered college with \$3,000 in savings most of which was invested in the stock market.

Happily, by the time I earned my degree I had borrowed only \$900. Admittedly, I earned the degree in three years instead of four, but I was a young guy in a hurry because I did my military service before entering college.

How the stock market reacts to the fits and starts of the economy is anyone's guess. The recent ten percent setback may simply be a healthy reversal for the next big leg up or it may portend another dip. Granted the stimulus money is running out, but many don't credit the government infusion as the prime fuel for the recovery. Whatever happens, you can bet your bottom dollar, the companies we own through the mutual funds we own are doing their best to improve sales and profitability, but mostly the latter. In the end it is profitability which drives the market.

We encourage you to take time for our questionnaire. We want to do a better job for you and the only way we can accomplish that is for you to tell us how we are doing. Thanks for the investment of your time in this effort.

We have decided to stop automatically reinvesting BlackRock distributions for a variety of reasons. The most important of which is we prefer to have the flexibility to reinvest the cash on a quarterly basis where your personalized Rebalancing Report indicates. Another reason is the sometimes wild, unexplained fluctuations in the stock market. We prefer to avoid taking the chance with so much money being reinvested at once.

Thanks for your continuing confidence.

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