

## FMG Economic & Investment Outlook Fourth Quarter 2009

The severe global economic recession of 2008-early 2009 has been accelerated into the recovery stage as a result of the huge money stimuli provided by the central governments worldwide. Deep recessions are typically followed by steep recoveries, and we expect that this global recovery to be robust months as well.

However, elements of uncertainty do exist for the rebound because along the way there are intelligent monetary and fiscal policy decisions required globally which if erroneous could negatively affect the recovery process. This is a concern for us because it was regulatory negligence and poor policy decision-making which manifested the severity of the global recession in the first place.

Domestically, the massive spending and stimulus programs will generate an array of problematic issues to be addressed such as higher inflation, higher interest rates, higher taxes, imbedded costly government intervention, increased regulations and government spending financed by debt. We question the competency of the Federal Reserve and Treasury Department policy-makers, and the government regulators as well to manage these issues which makes our current economic and business cycle forecasting challenging. Particularly disturbing is the continued irresponsible behavior by the institutions which received government bail out support and yet are still allowed to operate without increased accountability.

### **Economic forecasting drives FMG's investment decision making**

Keep in mind that FMG is an asset allocation firm and we utilize in-house economic analysis and forecasting to anticipate how the asset classes will behave and make tactical asset allocation decisions accordingly. It is our forecasting which influences how we make present moment asset allocation decisions. This often makes us appear contrarian to the ongoing market and economic commentaries. Using this investment approach is why we defensively positioned the portfolios in advance of the economic crisis and why the portfolios were repositioned for growth in advance of the current bull market run which started in March of this year.

### **Let's review this year's investment rebound**

As the below major index performances for the first ten months of this year reflect, the rebounding gains have been impressive, and in fact spectacular since the beginning of March.

<b>Index</b>	<b>OCT-09</b>	<b>QTD</b>	<b>YTD</b>	<b>Description</b>
S&P 500 Index*	-2.0%	-2.0%	14.7%	Large-cap stocks
DJIA*	0.0%	0.0%	10.7%	Large-cap stocks
Nasdaq Comp.*	-3.6%	-3.6%	29.7%	Large-cap tech stocks
Russell 1000 Growth	-1.4%	-1.4%	25.4%	Large-cap growth stocks
Russell 1000 Value	-3.1%	-3.1%	11.3%	Large-cap value stocks
Russell 2000 Growth	-7.0%	-7.0%	20.2%	Small-cap growth stocks
Russell 2000 Value	-6.6%	-6.6%	8.6%	Small-cap value stocks
EAFE	-1.2%	-1.2%	28.0%	Europe, Australasia & Far East Index
Lehman Aggregate	0.5%	0.5%	6.2%	U.S. Government Bonds
Lehman High Yield	1.8%	1.8%	51.7%	High Yield Corporate Bonds
All returns are estimates as of October 31, 2009. *Return numbers do not include dividends.				

### **Let's update where we are headed**

It is a historic fact that most of the recapture of lost value in a bear market occurs within the first 12 months from the bottom of bear markets, which this time around occurred in March. Accordingly we expect a relatively strong rebound to continue into 2010, with pullback adjustments to occur from time to time, as happened in October. These market adjustments cannot be timed, but more appropriately we tactically rebalance the asset allocations for opportunistic profit-taking and reinvesting. At this time, we anticipate the best opportunities for continued economic and investment growth to occur in Asia, especially China and India, and in the United States, most particularly the small and mid-size company asset classes. We consider all of Europe and most of Latin America to be relatively unattractive for growth.

### **Wealth building and preservation go beyond investment management**

FMG advocates that investment management be done as part of a comprehensive, coordinated financial plan where specific goals are set and progress is monitored along the way as life, economic and investment events change. Accordingly, we have assembled a financial planning team of specialists working on a comprehensive coordinated basis with our separate investment team of specialists for every client relationship in order to build and preserve wealth throughout all stages of the economic and investment cycles. Wealth building and preservation must include not only investment management but also financial planning activities such as cash management, debt management, tax planning, college funding, retirement planning, and estate preservation.

### **FMG welcomes referrals for new clients to assist**

As a result of the financial crisis, many people are deciding to make changes in their current financial management status. FMG has an experienced staff of professionals who are available to advise new clients seeking the comprehensive financial planning and investment advisory services that we offer as an independently-owned firm and provide on a fee-only basis. Our firm has been positioned to grow and the most important resource for us is satisfied clients and professionals who are willing to refer others to us. We offer with no charge or obligation an introductory, get-acquainted consultation to determine if and how we might be able to assist others with our services. For additional information, please view our Internet websites [www.fmgonline.com](http://www.fmgonline.com) and [www.quietmillionaire.com](http://www.quietmillionaire.com) or telephone us at 513-984-6696.