



LIFETIME FINANCIAL ADVISORS, INC.
A Registered Investment Advisor



2nd Quarter 2009

LFA Quarterly Newsletter

The Economy

In the first six months of 2009 we have experienced an immense effort by the U.S. Government to repair our economic system and restore confidence in our financial institutions. The Federal Reserve has flooded the system with an unprecedented amount of money. During this time we have witnessed the bankruptcy of the big U.S. auto makers, a dramatic upswing in the financial markets, and unprecedented government intervention in the capital markets.

As the first half of 2009 draws to a close, early signs of stability in the U.S. and global economies have emerged. We appear to have avoided financial Armageddon and the worst is probably over. The economy appears to be bottoming and there are some signs of stabilization. You hear the term "less bad", things are not great but they are "less bad". Make no mistake this is a deep recession but not a depression. We do not suggest that the economy is back on firm footing. We believe the recovery will be very sluggish.

Secular Headwinds

Historically, deep recessions have been followed by strong recoveries, but the current cycle is far from typical. We believe the economic recovery will be depressed for some time. This recession is not a traditional economic slowdown. It is based on an excessive debt bubble of consumers and financial institutions. The sad fact is our economy was fueled by easy money and excess leverage.

Many Americans lived far beyond their means using credit to supplement their lifestyles.



In his March 31, 2009 letter to shareholders, portfolio manager Steven Romick wrote, "We have lived with the illusion of prosperity for at least a decade. Even now, we doubt that most realize the magnitude of our current challenges and the potential problems that the "solutions" may generate. Our past excesses now haunt us. Their very magnitude dictates a protracted time to recovery - the deeper the cut, the longer the time to heal. The U.S. (and global) economy has not seen such weakness since the 1930's".

The U.S. consumer has experienced massive household wealth destruction estimated between \$12 to \$14 trillion from the severe bear market and decline in real estate values. Today, the average homeowner's equity averages 41%- down from about 60% at 2006 peak levels. The U.S. consumer does not have the balance sheet to spend our economy back to prosperity. Consumers are now saving and paying down debt. The personal savings rate has gone from negative to a positive 6.9% over the last six months. While this behavioral shift is good for families' financial security this new fiscal conservatism will hamper economic recovery as

consumer spending represents almost 70% of GDP! Any increase in the savings rate would mean a negative impact on economic activity.

The labor market remains under tremendous strain, unemployment rates are increasing and could peak at over 10%, and wages are frozen.

Banks are reluctant to lend and loan underwriting criteria is more stringent.

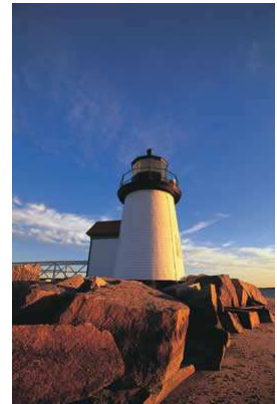
A growing concern is the expanding role of the government in the private sector. We understand the necessity to stimulate the economy. It would be healthier if it were done without government getting bigger. More government means more frictional costs in the system. Poor accountability, bureaucratic structure, and inexperience have rarely produced efficient results over time.

Our federal debt is expanding daily to pay for the bailout of the banks and automakers and to overhaul our health care system. Never mind Medicare and Social Security with their \$40 trillion shortfalls. A critical question is, "How do we finance all this debt?". The government has chosen more borrowing and higher taxes for higher income taxpayers. Stay tuned as there is no doubt more to come.

The Stock Market

Investor sentiment and confidence has improved this past quarter, moving from primal fear in the dark days of the first quarter to a willingness to invest in depressed prices of stocks and bonds priced at new lows. New buying pushed up prices substantially in March, April, and May. Attitudes of investors appear to have shifted from dire depression and fear to skepticism.

June stock market volatility reminds us yet again that considerable uncertainty remains about the prospects for a global economic recovery and for the profits of corporations around the world. The optimism that took hold at the end of the last quarter has given way to skepticism that the global economy will rebound any time soon.



There is no clear and definitive direction either to economic activity or to securities prices. Because the situation we find ourselves in is so different from any in the past 70 years and since the world has changed so dramatically in that time, past patterns most likely will not reemerge. Governments and central banks are feeling their way through the unknown, as are corporations and investors. The only conclusions that can be drawn at this time are that the global downturn is moderating and that the worst for the capital markets is probably behind us.

The market is currently in a trading range. The technical strategists we follow are forecasting a retracting market these next few months. Considering the speed and magnitude at which the market has recovered thus far, a retrenchment is certainly healthy and to be expected. If we were to see a 10% correction from this year's high it could be a buying opportunity.

Investment Strategy

While no one knows what the "new normal" will look like, growing numbers of economists forecast that both world economic activity and asset values will be significantly below peak levels of 2006-2007 for some time to come.

In such a subdued environment, how can one expect to make any money? The traditional way has been to buy undervalued securities and hold them for the long term (three to five years, minimum), waiting for earnings to grow and multiples to expand. However, this time, damage to corporate balance sheets and earnings have been so great that a sustained increase in securities prices will probably not occur until there is confidence in sustained growth of global GDP of, say,

2-3% per year. Rallies no doubt will occur in the mean time, as investors will place bets in anticipation of that growth. It may take longer to feel firm ground beneath us than many have the patience for.

Most portfolios have been over allocated to fixed income securities and domestic and global bonds for the past several months. This has proven to be productive where one gets paid with dividends while waiting for any future appreciation. Prices have increased significantly from their lows of 2008. Many think there is still potential for even more capital appreciation. We have allocated limited equity exposure with experienced asset managers. The "core" holdings of select global assets are increasing in percentage. These asset managers take a world view when selecting securities to purchase. The portfolio managers are cautious and vigilant and are seeing more growth opportunities outside of the United States.



In order to steadily ease into this recovering market, we will be dollar cost averaging* out of safer assets and into more opportunistic positions, depending on your specific investment objectives and time frame. Our goal is to slowly transfer into the investments that will participate in any further market recovery. We will continue to monitor the ever changing economic and political mosaic. Overall, our investment outlook has not changed, nor are we "perma bulls" or "perma bears". We believe our job is to be independent, unbiased, and flexible, finding profitable investment opportunities anywhere we can. We will continue to work hard for our valued clients to do so.

Whatever your comfort level, be assured that we are ready and willing to adjust your portfolio to match it. We look forward to discussing your portfolio, financial plans and objectives in our next update meeting in person or via a conference call. We thank you for the trust you have placed in us during this difficult time and we look forward to continuing to help you work toward your financial goals. We are here to assist you in any way we can.

Please don't hesitate to call with any questions or concerns you may have. Communication is essential during these tumultuous times. Our office is always full of activity but we are never too busy to talk with you. Best wishes for a great summer.

Best Wishes,

Steven Van Houten, CFP®

LPL Registered Principal
CA Insurance Lic #0613686

Lou Oberman, RFC

Financial Advisor
CA Insurance Lic #0393733

**Dollar Cost Averaging involves continuous investment in securities regardless of fluctuation in price levels of such securities. An investor should consider their ability to continue purchasing through periods of low price levels. Such a plan does not assure a profit and does not protect against loss in declining markets.*

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.