LIFETIME FINANCIAL ADVISORS, INC.
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The Velocity of World Events: Is Everything Happening at Once?

By Steve Van Houten, CFP® and Lou Oberman, RFC

Much has changed in the economic landscape these past 12 months. One year ago, we were wondering if our financial system would collapse, and whether or not we had seen the beginnings of the next Great Depression. Thankfully, we are all still here. There is a sense of relief and most are grateful for their lives and the people in it. It's different now, very different.

To say 2009 was memorable is an understatement. To future historians and economists, it will be the year to which all forthcoming bear and bull markets will be compared. For investors, recovery was the word for 2009. The year began in the midst of a bear market plunge that was the worst since 1932 and the free-fall suddenly rebounded into a "V"-shaped rally of 65% from March 9 through mid-December, the most powerful nine-month rally in the S&P 500 since 1933.

For 2010, in brief we believe:

- The recovery is likely to be sustained with economic growth in the 3-4% range;
- Stocks are likely to post gains early on and later cut in half to end the year in single-digits; and
- The bond market will likely post flat to mid-single-digit gains as higher rates and wider spreads pressure returns.

However, following a solid start to 2010, we expect a challenging second half of 2010. We anticipate the extraordinary global policy efforts that created a tailwind for markets in 2009 will fade or even transition to headwinds that contribute to a renewed slowdown in the economy and a potentially challenging latter half of 2010 for investors. Also, much like 2009 throughout 2010 there will be crosswinds that may make this transition uneven and introduce risks to our forecasts.

During 2009, our overall market outlook turned increasingly positive; but in 2010, the landscape will likely shift from rewarding risk to benefiting a more conservative stance. As global economic stimulus fades or even reverses in the latter part of 2010, similar to past rising rate

Getting your Financial House in Order

A few simple steps can make a dramatic difference in one's financial life, and there's no better time than now to get started. Instead of worrying about all the things we CANNOT control, why not put your energies into the things that you CAN control? A key step to financial success is setting and reviewing goals. In the meantime, small steps to getting better organized can reduce some stress. We recommend you first review the following topics:

1. **Revisit your savings and spending plan.** Track your spending. Pay yourself first. Utilize a retirement plan if you are still working.

2. **Reduce clutter— organize and consolidate old accounts.** Contact our office to go paperless or request proxies and annual reports be sent to your e-mail.

3. **Review your Insurance program.** Do you have the right types of coverage? We can assist you in this complex area.

4. **Beneficiary Designation.** It is imperative to double check who you have named as a beneficiary of your retirement plan(s), life insurance policies, and annuities.

5. **Update your Estate Plan.** Review the beneficiaries you have selected. Are they still the right picks? If it has been a while since you have consulted with your estate planning attorney we recommend you do so. There have been some recent changes that may warrant you to update your Estate Plan.

environments, markets experience greater volatility and may shed some gains. As these signs emerge, we would expect our managers to take profits in relatively riskier investments and, where possible, shift to more defensive, less risky ones to protect first half gains. Trimming exposure to those investments that benefited from the tailwinds to lock in profits and shifting the proceeds into those investments that may benefit from rising headwinds is a prudent plan of action. Again in 2010, a tactical approach to investing will be important to maintaining the path to long-term financial independence.

End of a Decade

The passing of 2009 marks the end of a decade that has been variously termed a decade of "aughts," The Lost Decade, or, from an economic point of view, The Big Zero. In the United States, there was basically zero job creation, zero economic gains for the typical family in terms of increases in household income, zero gains for homeowners (adjusted for inflation, housing prices are back to where they were at the beginning of the decade), and, to judge by various stock indices and averages, zero gains for common stocks.

And yet, when we review investment returns over the past decade, some striking exceptions stand out. The more opportunistic or eclectic approaches that we have mentioned in recent letters (and that we have used in client portfolios for almost 20 years) had high single to low double-digit returns on average annually from January 1, 2000 to December 31, 2009. That is, ***some money managers delivered 8-12% annual total returns (*****dividends plus capital gains*****) over the course of the decade*****.**

What did these money managers do that the vast majority of their peers didn't? While each of them made choices different from the others, they all share certain traits. Foremost among them is their commitment to 'winning by not losing'—to limiting losses in bear markets while participating somewhat or fully in bull markets. By paying as much attention to capital preservation as they did to capital appreciation, they were able to compound capital over time.

How were they able to limit losses? Most of them examined securities on a case-by-case basis for their intrinsic values, buying them at significant discounts to those values and selling them when their prices approached or exceeded those values. Also, they did not limit themselves to one asset class or one area of the globe—they owned stocks, bonds, real estate, gold, and even significant amounts of cash when other assets were not attractively priced.

Finally, they were wary enough of perennially bullish scenarios to diversify their holdings away from systemic risk. They tempered the optimism they might have had for individual securities with skepticism of the macro economic backdrop. In the early years of the decade, they were skeptical

'New Normal' for Consumers: Frugality is the New Cool

We noted in a previous newsletter how consumer behavior has changed during the past two years. The current unemployment rate of 10%, the fear of potential unemployment, and the current daily economic news has generated renewed consumer fiscal conservatism. Savings rates are going up, and U.S. consumers have changed their behavior. Below are some statistics from the McKinsey's Sentiment Survey:

- 59% going out to eat less.
- 40% packing lunch from home more often.
- 48% reduced purchasing of high-end brands.
- 63% agree that they are waiting more for sales (up 8% from 2008 survey).
- 53% say they are using more coupons (up 7% since 2008).
- 18% of consumers are trading down across a range of consumer categories.

Source: Doug Kass, www.thestreet.com, January 19, 2010.

of the profits claimed by fast-growing companies (Enron, WorldCom, Tyco, Adelphia). In the middle of the decade, they were skeptical of the profits and bloated asset values of the financial sector that resulted from artificially low interest rates and excessive leverage. Finally, they were skeptical (incredulous, really) of the credit boom that drove both residential and commercial real estate prices into the stratosphere.

While such approaches have been more than vindicated in the past decade, they also teach important lessons for the coming decade. The most important is the implicit belief that *nullius in verba*—take no one at his word. After a decade of deceit, in which we were fooled over and over again by leaders in all sectors of American life, a prudent investor will no longer suspend disbelief. He will dig beneath the surface, challenging conventional wisdom and looking as much as what could go wrong as what could go right.

Another lesson is the importance of *active management*. Indexes do well when a rising tide lifts all boats (bull markets) but perform miserably when the tide goes out (bear markets). They merely reflect the consensus thinking about the prospects for the market(s) they are designed to reflect.

The future is always uncertain but, currently, it is more uncertain than usual. With unprecedented levels of debt of governments, businesses, and individuals in the developed world, we are truly in unexplored territory. Over the next three to five years, profound problems will have to be solved successfully:

> *Will the U.S. Federal Reserve Bank be able to end its programs of low interest rates, or purchasing mortgages and treasury bonds, without igniting uncontrollable inflation?*
>
> *Will private-sector spending supplant government spending sufficiently to generate a self-sustaining recovery?*
>
> *Can Congress continue to run massive deficits without fatally weakening the dollar and triggering massive interest rate hikes?*
>
> *To what degree will the U.S. consumer, until recently 70% of Gross Domestic Product, resume spending?*
>
> *Will higher tax rates and increased regulation reduce productivity and dampen the entrepreneurial spirit?*

Against such a ponderous backdrop, money managers must ply their trade. Current dislocations have created buying opportunities not seen in years. We are confident that the managers to whom we have entrusted your money have the trenchant insights, keen analytical abilities, historical perspectives, and judicious temperaments to capitalize on these opportunities and to carry them through the difficult times ahead.

2010 Retirement Plan Contribution Limits

The IRS limits published for 2010 will remain the same as 2009 for most plans. See the chart below for a rundown of all the 2010 contribution limits.

Account Type	Regular Limit	Age 50+ Catch-up Limit
Traditional IRA	$5,000	$6,000
Roth IRA	$5,000	$6,000
SEP IRA	$49,000	$49,000
SIMPLE IRA	$11,500	$14,000
401(K)	$16,500	$22,000
Roth 401(K)	$16,500	$22,000

In conclusion, our uncertain world continues to be uncertain. We believe there are many unknowns as the world economic recovery is still in its infancy. World government policy responses are still ongoing. It is apparent that we are in a phase of extraordinary complexity. We will continue working hard for our clients, maintaining a global perspective and prudent risk management.

We sincerely thank you for the trust and confidence you have placed in us. As always, please contact us if you have any questions or concerns. We are always happy to speak with you.

Warm regards,

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