Investor Insights & Outlook

August 2013 | Vol:2 Iss:3 | Investment Updates

Electronic Delivery is here!!

As many of you know, Garner Financial Management has been working to upgrade our data management and reporting processes. Most of these changes are transparent to our clients but the obvious exception is the adoption of a new reporting system. We feel that the new system is a significant improvement, allowing us to generate much more informative reports. This upgrade also allows us to offer electronic delivery of all reports, eliminating the delay and clutter associated with paper statements.

The quarterly reports that you received last month were the first from our new reporting system. Additionally, we conducted a successful test run of electronic delivery of reports via a secure web portal.

We would like to thank everyone that provided feedback on both the new report format and on the web portal. We are working to incorporate many of the requested changes prior to the next report cycle.

Going forward, we would like to invite anyone that is interested in transitioning to electronic delivery to please contact us at:

(925) 282-5500

info@garnerfm.com

Garner Financial Management

info@garnerfm.com
925-282-5500
http://www.garnerfm.com

Advisor Corner

Garner Financial Management, Inc. was founded with one very important and underlying mission – to help improve and enrich the quality of life for you and your family.

Garner Financial Management utilizes global non-proprietary resources in order to design investment portfolios to meet all of your financial needs. We provide a customized and straightforward approach to financial growth, protection and management. Our fee-only structure is specifically designed to avoid conflicts of interest. As an independent advisor we utilize no proprietary investment products, and are free to select from all available investments. This investment process allows us to identify the most appropriate investment strategy and to focus on helping you attain your long-term financial goals.

The fiduciary role we assume in every client relationship is paramount. We understand the duty that we serve and hold ourselves to the highest personal and professional standards. It is our mission to grow and protect your wealth through integrity, passion and knowledge.

New Market Highs..(Yawn)

The headlines have been telling us over and over again that the U.S. stock market is achieving record highs, and the not-so subtle implication is that they have nowhere to go but down. In fact, the "lost decade" of 2000 to 2010 has obscured the fact that, historically, it is pretty common for stocks to achieve record highs.

If you look closely at the accompanying chart, you'll see that since 1950, the overall trend, until 2000, was a smooth if somewhat boring upward climb from 21.40 in January of 1950 to 55.34 in January of 1960 (more than a 150% gain), to 89.63 in January of 1970, to 102.09 in January 1980, to 339.94 in January of 1990. Record highs were recorded on a routine basis, and the trend accelerated from 1990 to 2000. That's roughly 50 years where the news media would have found nothing remarkable about stocks traveling into uncharted territory.

The pullback associated with the "tech wreck" decline in 2000 and the 2008 market meltdown have turned a relatively smooth ride into the kind of rollercoaster that carries warnings for people with back problems and heart conditions. Never mind that the markets are up 9,706.42% since 1950; the headlines today tell us that we're back above the market tops of 2000 and 2007.

History suggests that the steady, moderate growth of the 50 years ending in early 2000 is more normal than what we experienced during the first decade of the 21st century, when we endured two major collapses, the first brought on by rampant speculation in dotcom ventures (and Wall Street's phony and ultimately punished "research"), the other by Wall Street's reckless speculation on packaged mortgages. The ride may never become as smooth as it was in the past century, and it's certainly possible that the returns won't be quite as generous. We don't know. But it's possible that four or five years from now--or 50 or 60--all the incremental market tops will elicit barely a yawn from investors, and won't command headlines in our newspapers. Maybe we should prepare by ignoring them today.

Benefits of Staying Invested Through Market Volatility

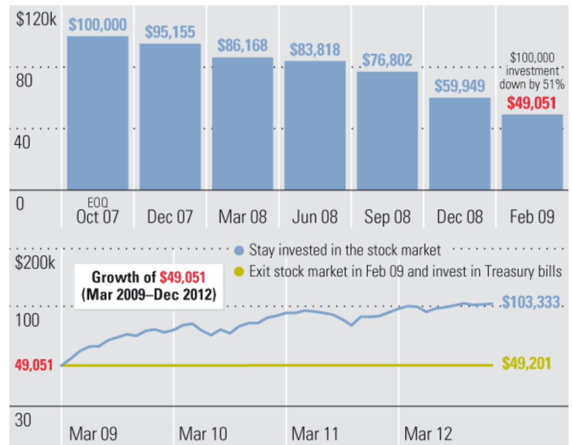
The recent market volatility has investors questioning, “Are stocks still a good investment?” It’s a good question, and one way to address this issue is to look at the recent 2007–2009 market crash. Investors who bailed out of the stock market following the significant decline and moved their money to the safety of cash would be quite disappointed to learn that the stock market, in fact, recovered significantly.

The top image illustrates the value of a $100,000 investment in the stock market at the end of October 2007 (when the downturn began). Over the next several quarters, this $100,000 investment declined significantly, and by February 2009 (the trough date) was down to $49,051, a 51% decline. If an investor panicked and exited the stock market to invest the remainder ($49,051) in Treasury bills (proxy for cash), here’s what would have happened. The bottom graph illustrates the growth of the $49,051 investment in both the stock market and Treasury bills since March 2009. The difference in the ending wealth values of the two investments is considerable. If an investor remained invested in the stock market, the ending value of the investment would be $103,333. If the same investor exited the market at the bottom to invest in Treasury bills, the ending value of the investment would be only $49,201. While exiting the market during a downward spiral may mean avoiding down days, it also means missing days when the market bounces back. While all recoveries may not yield the same results, investors may be well advised to stick with a long-term approach to investing.

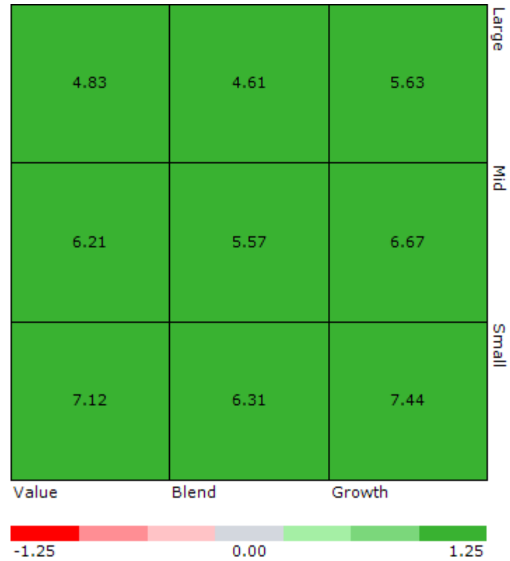
The beginning investment time period of October 2007 was chosen to illustrate two concepts: (1) investing right before a significant market downturn and (2) the contrast between exiting the stock market and staying invested during a recovery. The exact timeline of the downturn-recovery is as follows: October 2007 (peak before the downturn), February 2009 (trough), March 2012 (recovery).

Past performance is no guarantee of future results. Returns and principal invested in stocks are not guaranteed. Treasury bills are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest. Stocks are not guaranteed and have been more volatile than bonds or cash. Holding a portfolio of securities for the long term does not ensure a profitable outcome and investing in securities always involves risk of loss.

Ending Wealth Values After a Market Decline and Recovery



Monthly Market Barometer



1 Month, ending July 31, 2013. The U.S. Market returned 5.37% (YTD 20.18%).

The Morningstar Market Barometer provides a visualization of the performance of various stock market indexes. The color scale (red for losses and green for gains) allows you to assess which areas of the market performed strongly and which areas showed weakness for the time period analyzed. The nine-square grid represents stocks classified by size (vertical axis) and style (horizontal axis). There are three investment styles for each size category: small, mid and large. Two of the three style categories are "value" and "growth" while the central column represents the core style (neither value nor growth characteristics dominate). Large-caps account for the top 70% of the capitalization; mid-caps represent the next 20%; and small-caps represent the balance.

Garner Financial Management
3595 Mt Diablo Blvd
Suite 290
Lafayette, California 94549
info@garnerfm.com
http://www.garnerfm.com
Tel:925-282-5500