StoneRidge Wealth Management

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The Quarterly Profit

The Upside Down Map

Did you ever visit a new city, and set out on a walking tour with your trusty map in hand? The hotel was lovely, breakfast was great, and wasn't the weather just wonderful?! Two hours later, you were probably standing at some busy intersection with the map upside down, and getting crabby because the park on your left wasn't bordered by the street signs that you expected. Welcome to Markets 2011, end of first half!

The year started well enough. The upward trending during the last four months of 2010 continued through the middle of February, with the Dow increasing by about 6% in the first 45 days. (Compliance requires me to state that the Dow Index is not a security, and that past performance is not a guarantee of future return) The walking tour was great, and 2011 looked like it was going to be a very positive year. Then out of the blue, Japan was hit by one of the most devastating cataclysmic events in memory, Egypt's Hosni Mubarak resigned and transferred his power to his military, the U.S. military crossed Pakistan's borders and killed Bin Laden, and then we involved ourselves in an uncertain war in Libya. Here in the U.S., housing values continued to fall and unemployment continued to rise. The European credit crisis struck again in full force, and our own Congress began to play a game called "Draw your line in the sand, and don't worry about the tsunami".

Our delightful walking tour suddenly began to look like a disoriented Hokey Pokey. The Dow dropped 6% from February 18 to March 16. Then, it suddenly reversed course and jumped 10% (12,810) by April 29. Just as we thought we had found our location on the map, the markets went south by a quick 7% by June 15. Then we caught a cab and headed north about 7% to July 7. But, as walking tours go, our map was upside down and we caught a wrong bus, heading south again by 2% in the next 7 days.

The creases on our map are split and torn, a piece is lying in the trash over by the duck pond, and I'm not sure what quadrant of the city we're really in. We've pulled a Daniel Boone, "Never lost, but a might bewildered for a couple of months!" So if this scenario sounds uncertain, let's add a short round of optimism. We are NOT where we were a year ago; the Dow was at 10,359 on July 15, 2010 and is now at 12,479 on July 15, 2011, for a gain of about 20%. Japan is making Herculean efforts to rebuild itself, and the European Union fully recognizes how dangerous its debt levels really are. The Middle East will continue to be a problem area for years to come, and the cost of oil will fluctuate accordingly. Despite the many challenges so far this year, the Dow is still about 7% higher than it was on January 3, and there are signs the real estate markets may be turning slightly. I expect that our Congress will negotiate a deal at the 11th hour, raising our debt ceiling to avoid a ruinous default. The Dow will undoubtedly take a significant jump, as will the emerging markets which have generally lagged the Dow so far this year. However, we're still standing at a very confusing intersection with our map upside down. Let's make sure that we're prepared for the downside, and remember our StoneRidge mantra, Safety first, Growth second.

Van Mason, CFP™, CLU, MBA

Is It Age Based Memory Loss or Alzheimer's?

During the month of August, StoneRidge will be partnering with MFS to bring our clients two very informative events about Alzheimer's Disease. Did you know? About 5.2 million Americans have Alzheimer's disease today. That number is estimated to reach 7.7 million by 2030.[1] 12% of people age 65 and older have Alzheimer's disease.[2] And Approximately 1 to 4 family members will act as caregivers to each individual with Alzheimer's disease.[2] Is a person close to you suffering from Alzheimer's disease, or are you concerned that he or she may be? Come and learn about its symptoms, what to do if someone you love may have Alzheimer's disease and what to expect. John Walker from the Alzheimer's Organization will differentiate Alzheimer's disease from normal memory loss. Watch for your special invitation in the mail. This will be an event you don't want to miss. StoneRidge Wealth Management will be providing a lovely dinner at Ruth's Chris for our clients who bring their special guest(s). Amy Treat, COO/Partner

1 Source:.alz.org 2 Source: alzfdn.org

Bringing It Home… Exit Stage Left!

For several years now, we've been reading reports that Chinese and Indian engineers often find more opportunity in their home countries than in the United States. A joint study from Harvard, Berkeley, and Duke has recently been published, providing compelling evidence of how significant this trend actually is. According to Vivek Wadhwa who co-wrote the study, "The numbers are like a slap in the face for those politicians who are downplaying the rise of a new India and China". Immigrants to the US who received advanced engineering degrees from Stanford, Berkeley, and other top schools have accounted for more than 50% of all start-ups in the Silicon Valley. Now, that percentage is rapidly being reduced because so much top talent is returning home. The study shows that 72% of Indians and 81% of Chinese who returned to their homelands have found greater start-up opportunities there. For years, Silicon Valley has been considered the world's hotbed of technological creativity and innovation. Clearly, those days are numbered, as such technology centers as Bangalore India take center stage. Van Mason, CFP™, CLU, MBA

When Does a Hot Bric Cool Off?

The BRICS have been in the forefront of global economic news since that acronym was first coined in 2002. Brazil, Russia, India, and China have arguably been the fastest growing economies in the world for the last ten years, while the U.S, Western Europe, and Japan have been forced to eat their collective dust. But how long can these economies continue their dramatic growth rates? It is one thing to gain economic traction as economies emerge and imitate the systems and infrastructures of the wealthier nations. However, an entirely different scenario presents itself as increasingly affluent societies are no longer satisfied with dirt-poor wages; previously tolerable sacrifices quickly become intolerable. Eventually, the hot new entities that have leap-frogged the aging technologies of the rich world face the reality of having to cope with their own systemic and infrastructure challenges. So when does a Hot Bric begin to cool?

Barry Eichengreen, Donghyun Park, and Kwanho Shin have just published a working paper, "When Fast Growing Economies Slow Down". They estimate that when GDP (growth domestic product) reaches a per capita of $16,740 PPP (purchasing power parity), the average annual growth rate for that rapidly growing market drops from 5.6% to 2.1%. (Purchasing power parity is important because it equalizes the purchasing power of different currencies for a given basket of goods. The Big Mac has become a popular PPP item because the burger is virtually the same all over the world, and may quickly be used to calculate the relative purchasing powers of the many global currencies.)

The study estimates that China's spectacular growth will cause its GDP to hit the $16,740 mark by 2015, and that a significant slowdown after that is possible. (Brazil's and India's GDP's are far behind, and are not expected to reach the tipping point until many years later.) If the study's estimates prove to be reasonably accurate, the authors suggest the most important questions will involve the possibility of economic crisis, followed by political and social unrest. As valid as this study probably is, it cannot possibly quantify the power of tomorrow's creativity and technological development, nor can it predict how successfully China's government and varied societies may adapt to a gradual slowing of economic growth. A critical variable is the potential for significant industrialization of China's interior, or "middle kingdom". As innovation and technology centers move from China's coastal regions to the interior, millions of agricultural workers may shift to manufacturing, setting a new level of GDP, and creating an increasingly vibrant market for China's own production of goods and services. As China becomes more prosperous, its demand for Western goods and services will continue to develop, possibly setting the stage for a new round of global growth, and creating a more affluent and stable Chinese society.

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