Paul R. Ried Financial Group, LLC
Security for your future

A MESSAGE FROM YOUR FINANCIAL TEAM
First Quarter 2012
March 30, 2012

Dear Clients,

The strong start to stock markets this year has been welcome news to investors in a sea of worries. As of this writing, the US stock market (as measured by the S&P 500) is up about 12% for the year. Many international markets have enjoyed similar strong gains.

Exceeding Expectations -- So Far

At the start of the year, CNNMoney released a survey of 35 investment strategists & money managers who gave their forecasts for where the S&P 500 would end the year. The average of their "crystal ball" predictions came to 1351 on the S&P 500 (or a gain of about 7%). That target was passed in less than two months.

As I sat down to write this letter I couldn't help but feel a slight sense of deja vu. After all, we saw similar strong starts in both 2010 and 2011. You can see these similarities in the chart below.

2010		2011		2012	
Dates	Return	Dates	Return	Dates	Return
1/1/10 - 4/23/10	9%	1/1/2011 - 4/29/11	8%	1/1/12 - 3/26/12	12%
4/24/10 - 7/2/10	-16%	4/30/11 - 10/3/11	-19%	?	
7/3/10 - 12/31/10	23%	10/4/11 - 12/31/11	14%		
S&P 500 return for year 13%		S&P 500 return for year 0%			

*Returns reflect S&P 500 price change excluding dividends

Now, the purpose of illustrating this is not to encourage anyone to draw conclusions from this limited information. Instead, it is to help show how often large swings occur in the market.

Think back to how you may have felt during each of these rallies and sell-offs. Were you itching to increase your allocation to stocks at these short-term peaks early in the year? Wanting to decrease your allocation to stocks at the bottom of the sell-offs? While these feelings are normal, keeping these urges in check is an important part (possibly the **most important** part) of a successful long-term plan.

Light ~~at the end~~ in the Middle of the Tunnel

In June, it will officially be a full three years since the recession was declared to have ended. If that sounds odd to you, you're not the only one. The economic recovery has indeed been glacial in pace. Since June 2009 there have been only about 2.2 million new jobs despite an increase of about 6.1 million in our population. Fortunately, one light in the middle of this very long tunnel has been a somewhat steady increase in new jobs. The last 6 months have averaged over 200,000 jobs per month. While this isn't "strong" employment by any stretch of the imagination, it is more than the 100-150,000 per month needed to keep up with population growth.

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"Whac-A-Mole" Around the World

Just like in the old game of Whac-A-Mole, there does not seem to be a shortage of problems around the world just waiting to pop-up when it appears one is temporarily under control. While worldwide stock markets seem pleased with the "restructuring" of Greek debt, the pricing of the new bonds implies there is little faith that those will not eventually go into default as well. In the meantime, the situation in Spain continues to deteriorate with increasing strikes and an unemployment rate over 23%.

The debt of the European "PIIGS" (Portugal, Italy, Ireland, Greece and Spain) receives all the attention, however, even more worrisome is the debt of Japan which is more than twice the size of its economy. While many people worry about rising rates in the US, the situation in Japan is much more critical. Their situation could literally go from stability to true crisis with just a 1% move higher in their 10-year bond rates. At that level, it is said the interest on their debt would exceed their entire expected revenue from taxes. This is an issue Japan has been able to delay for quite some time. However, as their population continues to age and they record their first trade deficit since 1980, attention is shifting.

Whether it be European, US or Japanese debt issues, worrying signs regarding Chinese growth or the never-ending uncertainty in the Middle-East, this not-so-fun game of Whac-A-Mole is likely to continue for some time.

Diversity in the Face of Uncertainty

There is no shortage of concerns, but the reality is the outcome of these events is largely in the hands of unpredictable governments. Therefore, we continue to believe that in the face of uncertainty, diversification is key to reaching your long-term goals. This includes an allocation strategy that is consistent with your return objectives and risk temperament as well as reflects our outlook on the economy.

As always, we continue to actively monitor the markets, economic fundamentals, individual fund management teams and your specific portfolios. We are here to serve you. We encourage you to call or e-mail with any questions you may have.

Sincerely, your Financial Team

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