CLARK FINANCIAL ADVISORS

# CFA NEWSLETTER

2nd Quarter 2009

*Contact Us:*

**4128 Crosshaven Drive**
**P.O. Box 43828**
**Birmingham, AL 35243**

**(205) 298-8480**
***Birmingham***

**(256) 237-0000**
***Anniston***

**(800) 791-4087**

***Email Us*:**

**Brooks Clark-**
Brooks@
ClarkFinancialAdvisors.com

**Elizabeth Levant-**
Elizabeth@
ClarkFinancialAdvisors.com

**Mario Humbert-**
Mario@
ClarkFinancialAdvisors.com

**Jennifer Gibbs-**
Jennifer@
ClarkFinancialAdvisors.com

## To Our Valued Clients & Friends:

### Breathing A Little Easier

Last week, Beth and I spent a few days at the beach, and I took the opportunity to outline this quarter's letter. Like all of us, I have enjoyed watching the investment indexes rebound from their low point in mid-March, but I feel that we must look well beyond the talking heads and news headlines to see what is next for our economy and country.

As I looked at the newspapers spread in front of me, I found myself drawn to the "Money" section of *USA TODAY*. The section was full of positive headlines on the economy, which I realized was in sharp contrast to the tone of my last quarterly letter.

As part of my preparation for each quarterly letter, I take a moment to review the previous quarter's letter in hopes of allowing for a smooth transition from one to the next. As I read last quarter's letter, I was amused by how different the investment atmosphere is compared to 90 days ago. In mid-March, investors were "shell shocked" because of a terrible 2008 and the additional 25% decline in the market's new year. But, since mid-March, the Dow has climbed 34.4%, the S&P has climbed 39%, and the NASDAQ has grown by a full 46%. I guess the bottom line is that we are all breathing a little easier.

As I put both the newspaper and our last quarterly letter down, I couldn't help but smile a bit as I sensed that the story of economic gloom and doom, which was so prevalent last quarter, has now finally made its way off the front-page. As you may recall, I suggested that little market progress could be made until we get the fear of a total economic collapse behind us.

### Times They Are A-Changin'

While the economy may no longer be the lead story, I believe the markets may have rebounded too far and too fast to represent much more than a relief rally. I am concerned that some potentially permanent trends have developed in our consumer driven economy that may slow the rebuilding of investment market values.

I recently found a fascinating survey in the *New York Times* in which the majority of those surveyed admitted that the recession has led to an alteration in their personal spending habits. The article further suggested that people are now buying what they need—not what they want. The


*"You don't have to look far to see businesses and friends that have been affected by this recession with its deep decline in corporate earnings and employee layoffs."*

story went on to report that 13% of consumers surveyed said that when the recession ends they will return to their old spending habits.

I don't want to be a killjoy, but since consumer spending habits over the last 10 years were fueled by easy credit through generously offered credit cards and ever-expanding home equity lines due to rising home values, that 13% may be in for a shock when they attempt to resume their old spending habits. They may discover that many of their credit lines have been cut because of banks' need to reduce their credit exposure. Many may be disappointed to find that credit is simply not as available as it was before.

### The Economy And Unemployment

You don't have to look far to see businesses and friends that have been affected by this recession with its deep decline in corporate earnings and employee layoffs. We are now approaching a 10% unemployment rate, which was suggested in our first quarter's letter. An even clearer picture is visible through the U-6 Report, an obscure Bureau of Labor statistic report that accounts for the underemployed (those workers laboring in part time jobs due to the fact they can not find full time work) as well as the unemployed. The report, dated May 11, reports that the number of both unemployed and underemployed has risen to 16%. This figure, when combined with the number of workers who are no longer eligible for unemployment benefits may suggest that 1 out of every 5 Americans is either out of work or underemployed.

Here in Birmingham, a city that has not been as dramatically affected by the recession as some other cities, we can still feel the impact. We have seen companies that have been in business for 50 years close. We've also seen a sharp rise in home foreclosures, double-digit declines in home values, and a build-up of unsold housing inventory that will last for years. (This has become a sensitive issue in our neighborhood as we have had two home foreclosures within 100 yards of our front driveway.)

### Not Just A Short-Term Problem

A survey recently conducted by AARP suggested that many Americans are giving up on the idea of retirement. In the survey, 35% of participants said they have ceased making contributions to their 401k plans or IRA accounts. Another 25% surveyed said that they have taken permanent withdrawals from their retirement accounts, and finally, 56% said they have postponed a major purchase in the last six months. These are serious confessions from consumers that "used to be" the driving force in our economy.

Loss of jobs and a decline in confidence in the ability to retire comfortably would certainly take a toll on any economy, but for an economy which was formerly 70% consumer-driven, the change in consumer spending habits and the economy's attempt to adjust to that altered consumption demand will have a dramatic effect.

### An Increase In Savings

The consumer had been on a spending spree since 2000, resulting in a savings rate near zero for almost a decade. Recent data, however, suggests the savings rate has now climbed to over 6% and is projected to increase to almost 10% over the next three years. The removal of easy credit from the economy combined with consumers beginning to redirect 10% of their disposable income (previously spent on goods and services) will have an immeasurable impact on short-term prospects for economic recovery and investment markets.

### Putting It Into Perspective

I found an interesting chart that tracked both the personal savings rate and the household net worth of Americans between 1957 and 2008. (Household net worth is best defined as a combination of a homeowner's equity and investment portfolio values.) From 1957 through 1987, America's savings rate hovered at the 10% level with little variance. Then, from 1987 until 2008, each time personal household net worth increased (primarily because of the rapid increase in real estate values) the personal savings rate declined. The rate fell from 1987 to 2000, but then rebounded during 2000-2002 when the stock market crashed. The American consumer didn't forget how to save, but it appears they will only save during bad times. Nevertheless, after 2002, as the market began to rebound and real estate values increased, the savings rate dropped back to zero, where it remained through early 2008.

It's interesting that Americans' household net worth peaked in late 2003, well before the Dow achieved the 14,000 level in October 2007. The rapid increase in housing values, up until 2006, had a greater impact on building Americans' net worth than did the rise of investment market values through 2007. As a result, we can begin to understand the severity of this recession as the dramatic decline in housing values (by as much as a 1/3 nationwide) has affected far more Americans than the 2000-2002 stock market decline. The bottom line is that Americans are more affected by a decline in housing prices, representing a much larger portion of net worth, than a decline in stock portfolio values.

In October 2007, when the Dow Jones Industrial Average crossed 14,000, an all time high, real estate prices had already begun to decline, and consumers were making massive withdrawals from their home equity through the use of generously offered home equity lines. As a result, by October 2007, household net worth had already declined by 7% even though the stock market had hit its record high. By December of 2008, because of the decline in both housing and portfolio values, the household net worth of Americans had declined by more than 1/3 from its peak only four years earlier.

So what are we to do with these observations? The spending habits of Americans are changing, and so will our economy. Is it the end of the world? Of course not, but it does represent a return to normality. In just a decade, we have observed abnormally high rates of return in both the stock market (from 1996-2000) and the real estate market (from 2000-2006). If one charts these investment classes over the last 50 years, these two measuring periods represent an abnormally high rate of return when compared to historical rates of return. Both asset classes must now return to normal rates of return.

I believe the stock market will begin to climb back to providing its historic rate of return of between 8-10% annually, and I believe this will occur more quickly than in real estate. Nevertheless, although we have increased our equity exposure in the last quarter, equity exposure does not represent the majority of any of our accounts.

Real estate prices, both housing and commercial, have a longer wait before their values stabilize and begin to yield a positive return to investment portfolios. While home prices may have approached their bottom, I believe that commercial real estate will continue to fall in value for the better part of a year. Nevertheless, we will begin to increase our observation of real estate investment trust, as the market will anticipate a bottom instead of reacting to one.

*More Americans are saving—recent data suggests that the savings rate has climbed to over 6% and is projected to increase to almost 10% over the next three years.*

*If you would like to have a copy of your statement from Clark Financial Advisors listing all of your accounts and their current values, please email or call Mario, and he can update your statement and forward it to you.*

We will continue our conservative allocation and will not be caught up in the sharp two-month rebound of this market. We may even have to absorb a 10% correction, perhaps down to the 7800 level for the Dow, but I do believe that the 7800 level will hold. We will continue to maintain a "Let's get paid while we wait!" investment attitude by collecting strong dividends and interest from carefully chosen instruments and funds that provide attractive yields while we wait for market conditions to improve.

### A $500,000 Tip

In closing, I would like to give you a $500,000 tip for your retirement. I am not being flippant, as this may be one of the most important suggestions I ever provide. With American household net worth declining by over 1/3 over the last four years, this suggestion could have a major impact on your future, and I ask that you consider the suggestion before discarding the idea. ***The idea is simple—delay your retirement by four years.***

Most Baby Boomers have a mental target date for retirement of age 62 or 66, which coincides with the opportunity to collect Social Security benefits. If you delay your retirement by four years, the first consideration is that you will not be drawing from your retirement savings for a period of four years. For someone who hopes to have a retirement income of $100,000 a year, that's the equivalent of allowing your retirement funds to build to $484,000 ($400,000 for 4 years at 5% interest). Perhaps equally as important is the fact that if you delay your retirement from 62 to age 66 or from 66 to 70, you will add an additional 50% to your monthly Social Security benefit. For someone who waits to retire until age 66 instead of 62, this will add an additional $866 a month or over $10,000 a year to your Social Security benefit. This is equal to having an additional $107,000 in your investment portfolio for the future. Well, I said I would give you a $500,000 tip and the combination of these two figures is $591,000, so, keep the change!

*Warmest Regards,*

*M. Brooks Clark*

## The Numbers

| | Dec. 31, 2008 Index | June 30, 2009 Year-To-Date | Change For Quarter | Change From Market Peak (Oct. 2007) |
|---|---|---|---|---|
| Dow Jones Industrial | 8776 | (3.8) | +9.5% | (39.8%) |
| S&P 500 | 903 | +1.7% | +13.4% | (40.7%) |
| NASDAQ | 1577 | +16.3 | +19.5% | (34.7%) |
| Russell Value | 487 | (4.5%) | +13.1 | (46.2) |
| Russell Growth | 371 | +10.5 | +15% | (34.8) |
| Treasury Index | 119 | (21) | (9.3) | +6.5% |
| Real Estate Index | 37 | (12.3) | +28% | (60.6) |