



# PERSPECTIVES

OCTOBER 2009

NUMBER 45

## Third Quarter

**A classic recovery!** If one could plot out what a typical stock market recovery should look like, this is it. We made the first bottom last October, recovered some then collapsed again to new lows culminating in investor capitulation in early March of this year. At first the market began to recover without any economic evidence or support. When it became clearer that the worst was over, stocks already had made impressive gains.

Now that stock prices are continuing to climb, investors are obviously anticipating economic recovery and growth. Throughout, the market climb has been met with skepticism and doubt. This is also typical and part of every previous stock market recovery. The best part of every recovery is right at the beginning. Those who missed it missed one of the best opportunities of our lifetime. Thankfully, it is still early so all is not lost.

Bonds did little during this past quarter; yields staying in a trading range. Opportunities continue to exist in areas outside of Treasuries and other high quality areas, but these have risks. Potential returns on these higher risk fixed income instruments are probably no better than returns obtainable in the stock market. In short, bonds are no longer exciting. The time for bonds, except to mitigate risk or provide safe income, is over.

September has typically been a difficult month for stocks, but not this September. The stock market continued a regular if not relentless advance to new annual highs with broad participation among all categories of stocks. Not only were U.S. stocks strong, much of the same pattern was exhibited across world stock markets. October looms; historically another tricky month, what's next?

## Forecast

### Economy

The economy is in recovery. It is early, so it is still difficult to determine its strength, but initial signs are good. Firstly, the recovery started much sooner than most expected, secondly, inventories were drawn down dramatically and are now being rebuilt, and thirdly, employment decline is moderating with a turn in sight.

We now believe that it is likely that the recovery will be much stronger than most economists expect. Many businesses may have panicked last winter; cutting too deeply and now have to add back production and eventually people in order to meet demand. That bodes well for the next couple of quarters.

Longer term, the economy faces many

headwinds such as a deleveraging American consumer, higher taxes, tighter money, and more regulation. That is why we have identified durable investment themes to guide us (see the **Investment Strategy** section).

### Equities

So far – great; it has been quite a recovery, we expect more. Not only is company ownership (stocks) the best game in town, it is almost the only game in town. Interest rates are low, real estate got so over-done that recovery will be very slow, and commodities are a small market. Stock returns also have lagged historical norms for over a decade now. Just normalization to those long-term averages could mean exciting gains over the next few years.

(continued)

## Talk With Us

**Preparing to be ninety;** it's not so farfetched anymore. More and more of us will live to be ninety or older. That is 25 years of retirement from age 65. It is 25 years of self financing for more and more of us too. How do we do it?

Unless one has truly vast resources, this is a vexing problem. What may appear to be sufficient may actually fall far short. We encourage all our clients to get a review of their retirement plans. We offer this service free through our staff Certified Financial Planner.

Just as important is to develop a strategy to manage retirement assets, not only through the accumulation phase, but also through retirement itself. Sometimes the instinct during retirement is to play it ultra safe, perhaps rolling CD's and other "safe" fixed income assets. No one has to tell you what the current returns are on these. These returns may not be sufficient to sustain the asset base for as long as needed.

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### Notice

Riverplace Capital wants to help you properly plan for retirement. We do this free of charge for our clients. It is integral to our investment process. If you are not a client, we will make a free preliminary review to see if we can be of help to you. Please call Stephanie at 346-3460, or (800) 391-1212, or email her at [sharrington@riverplacecapital.com](mailto:sharrington@riverplacecapital.com) to set up a review.

### MAJOR INDICES AS OF 9/30/2009

Large Cap Stocks (S&P 500)	17.03
Dow Jones Industrial Average	10.66
Mid Cap Stocks (S&P 400)	28.38
NASDAQ Composite	34.58
Small Cap Stocks (Russell 2000)	20.98
MSCI EAFE	25.49
Barclays Corp. Bond Index	5.26
Inflation	-1.5

(EQUITY INDICES ARE NINE-MONTH RETURNS EXCLUDING DIVIDENDS)



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## Forecast *(continued)*

Just like the initial stage of this stock market recovery, the best gains come well before the supporting economics become apparent. Stock market timing is a game of anticipation. Investors that got out at the bottom may either not return or only return quite late in the cycle. It is unfortunate, but seems to happen with every market cycle.

### *Fixed Income*

Interest rates are at historically low rates and have been in trading ranges most of this year. We expect that the next big move on rates is higher. However, there are some exceptions such as lower rated and junk bonds. These were sold off so hard during the crisis that these are still recovering. Many of these may have more recovery to go. The junk bond category has been extremely profitable this year as these interest rates have declined to more normal levels (remember, as yields decline, the prices for bonds go higher).

At this point in the rate cycle, with the Fed poised to raise rates some time in the next year, we see less and less return and increasing risk.



## Investment Strategy

### *Equities*

Our investing themes are participation in growing foreign markets, green energy, clean water, mobile internet, and internet services. Riverplace Capital sees these as growth opportunities for quite some time and seeks out companies tapped into one or more of these themes.

In early August, we reduced exposure to stocks by about 5%, with the proviso that we would sell even more if markets quickly deteriorated. This was done to reduce risks after an exceptional rebound since spring and to provide flexibility should markets correct in September or October. During September, the ragged stock market action of August improved and markets continued to move higher.

There is still the possibility that investors may not be satisfied with earnings growth for stocks this past quarter. (Most earnings for the third quarter will be reported in October.) Expectations may be too high for such an early stage of recovery. If we get opportunities, we intend to buy. Our outlook over the next 12 months is for an

As one depends on their asset base for their livelihood, safety and stability become more and more important. So the challenge becomes how to provide that safety and still earn sufficient returns to maintain a sufficient income for as long as 25 years or more. Part of the answer is in the investment allocation and part is in the overlay of protections as part of the investment strategy.

Last quarter's "Perspectives" contained an article on dynamic asset allocation and how Riverplace Capital intended to implement its principals. The basic notion is that to stay ahead of typical market cycles, one needed to reduce allocation to riskier asset classes during periods of prosperity and calm and increase riskier assets during periods of crisis and opportunity. That is precisely what we did this winter and spring by buying corporate bonds and stocks when they were abnormally

## *Talk With Us cont'd*

cheap. We are by no means at a point yet where risk assets need to be reduced significantly except for some tactical adjustments to take advantage of normal volatility.

Asset allocation decisions are based upon the client's needs and level of resources. Here every attempt is made to properly tailor an approach that can meet needs with the least amount of risk. Results are regularly reviewed to assure that goals can continue to be met. Obviously one shouldn't project returns from cycle lows or highs, but attempt to normalize both to a more realistic expectation.

This is the approach that Riverplace Capital uses to help you prepare to be 90. We plan, appropriately allocate, manage, track results, and adjust as needed to meet your financial needs. If this is what you need,

*Talk with Us.*

accelerating recovery that brings excellent profit growth, especially for companies that are tapped into one or more of the important growth themes we have identified.

### *Fixed Income*

We continue to seek opportunities to purchase quality fixed income instruments at favorable prices. So far, few have occurred. We are being patient seeing no need to commit to historically low rates. An economic recovery will eventually force interest rates to rise. If enough investors are overly committed to too low rates, then this move can be sudden and dramatic. We are in position to take advantage of such an occurrence.

### *Wealth Management*

We review our allocation decisions to various sectors regularly. Since making some changes in the spring of this year, we are pleased with the performance of our accounts and have not made additional changes. As usual, we continue to monitor performance and should adjustments be necessary, we will not hesitate in making them.

VISIT OUR WEBSITE AT [WWW.RIVERPLACECAPITAL.COM](http://WWW.RIVERPLACECAPITAL.COM)

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