Lassus Wherley
Building Better Futures
...a View from the Top

Issue 46, June 21, 2013

Markets Are Never Dull!

June has become an exciting month as Chairman Bernanke again talks about beginning the process of "tapering" which the financial markets are obviously not happy about. This special issue discusses our perspective on this process.

Here We Go……..

I really enjoyed the headlines and stories concerning Chairman Bernanke's remarks and the impact on the financial markets. One of my favorites was the WSJ article "Economists Think Markets' Taper Tantrum is Temporary." Almost a tongue twister.

The reality is that many folks in the financial markets have become addicted to that "easy money" and will certainly experience some withdrawal symptoms as we work our way out of it. Markets reacted quickly and sharply to the comments made by Fed Chairman Ben Bernanke in the press conference which took place after the conclusion of the Fed's two-day meeting earlier this week.

Expectations going into this week were that Chairman Bernanke would try to calm the waters and indicate that the Fed was not considering tapering their monthly bond purchases just yet. This is not what happened, and in fact, Bernanke explained that the Fed considered that it would be appropriate to moderate the level of purchases later this year and that they would look to reduce the pace of buying through the first half of 2014.

The Good News Is…...

The Fed views the US economy as recovering sufficiently to begin to withdraw the monetary support which earlier seemed necessary. I heard someone talking about an analogy that Professor Jeremy

Siegel used that referred to the US economy as a patient on life support. That seemed like a really appropriate way to view the economy today. It has improved to the point where removing life support may make sense.

In this case, Chairman Bernanke pointed out that 200,000 jobs per month had been added over the past six months and that these job gains were leading to increasing consumer and business confidence.

1 Academy Street, New Providence, NJ 07974
Phone: 908-464-0102
www.lassuswherley.com
3333 Renaissance Blvd., Bonita Springs, FL 34134
Phone: 239-495-1520

@diahannlassus Don't follow the down-market hype—remember your returns for the past few years and breathe deeply.

(Twitter Quote)

The Fed is looking for slow to moderate economic growth in the US and expecting that this will pick up over time. So…..the patient is being scheduled to come off of life support given this outlook, and the highly accommodative monetary policy will no longer be required at some point in the future.

According to Chairman Bernanke, the Fed will continue to assess economic conditions and is prepared to vary their rate of purchases as the economic data evolves. In other words, if the economy appears to be weakening, they will maintain or increase the purchases of US Treasuries and mortgage-backed bonds, and if the economy appears to be strengthening, they will buy fewer bonds.

Anticipating that this announcement would cause some anxiety in the markets, Mr. Bernanke chose to describe the tapering of bond purchases in terms using the analogy of a driver letting up on the gas, not applying the brakes. Investors were not satisfied with this description, and stocks sold off both Wednesday, June 19th, after the conclusion of the meeting, and Thursday, June 20th.

Our view is that it was time for the Fed to start talking about the end of Quantitative Easing, the formal name for their bond-buying program. The economy has strengthened and it is time for these extraordinary high levels to begin to be reduced. Investors who believed that the easy money provided by the Fed was the main, or the only reason, that markets had done well, sold as they saw this support coming to an end. We believe that the markets have increased in value dramatically not just because of the monetary ease provided by the Fed but also because the economy has responded and is picking up momentum.

We see the market action this week as somewhat of an over-reaction. While we may be surprised by the timing of the beginning of the end of Quantitative Easing, in fact, we all knew that the program would need to end in order to let the economy run on its own.

We expect that markets will stabilize over the course of the next few months as investors adjust their expectations to this new reality. We take Mr. Bernanke at his word that their decisions will be data dependent and that they will increase the level of purchases if economic data weakens.

The withdrawal of $85 billion in bond purchases by the Fed is likely to continue to put pressure on bond prices. Remember, as bond prices go down, yields or interest rates go up. As rates rise, the income generated by bond funds increases as well. We have been reducing the "duration" or the sensitivity to changes in interest rates in our bond portfolios for some time.

Another point to remember is that the Fed can slow down "tapering" and push the gas pedal down again

should the economy begin to slow. We are all doing the "what-if" game as we attempt to predict what will happen later this year. The reality is there are many moving parts which make it difficult for us as advisors, but it also makes it tough for the Fed's economists in moving through the maze of decisions they have to make. In the world of finance there are no easy short-term answers but there are a lot of very smart people who will certainly figure it out for the longer term.

We continue to review asset allocations and current holdings with a focus on managing risk during a period that we expect to be a volatile one.

We will continue to invest for the long term. For investors with a long-term time horizon, the stock market's reaction to the Fed's news this week can be viewed as a short-term setback after a great return over the past 12 months. We also see it as an opportunity to invest surplus cash in portfolios to take advantage of the lower prices. We will continue to rebalance as asset classes become underweight vs. their target. This is our process, and we are sticking with it.

As always, please keep us apprised of any upcoming cash needs which you may have. This enables us to raise cash well in advance of the need. The world of finance and investment is never dull and boring. Sometimes boring would be a really good thing, but until that day comes, we will continue to focus on ways to balance risk and return.

Have a wonderful Summer!

Diahann

Investment Committee:

Diahann W. Lassus, CFP®, CPA, PFS, Chair

Anne L. Kehl, Investment Officer

Lisa McKnight, CFP®, Financial Planner

Betty S. Thomas, Investment Analyst

Chadderdon W. O'Brien, CFP®, FRM, Financial Planner

J. Charles Pawlik, CFP®, Financial Planner

Deborah J. Rivosa, CFP®, CFA, Chief Compliance Officer

Compliance Disclosure

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Lassus Wherley & Associates, P.C. ["LWA"]), or any non-investment-related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from LWA. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. LWA is not a law firm and no portion of the newsletter content should be construed as legal advice. A copy of LWA's current written disclosure statement discussing our advisory services and fees is available upon request.