



RETIREMENT FINANCIAL SERVICES, INC.
WEALTH MANAGEMENT AND RETIREMENT SOLUTIONS EXPERTS

Weekly Commentary
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The Markets

So now we know where money comes from.

The Federal Reserve elevated this financial crisis to an entirely new dimension last week by announcing several initiatives that would expand its balance sheet by more than \$1 trillion. Effectively, they've decided to fire up the printing presses and create money where there once was none. We've been told that money doesn't grow on trees; now we know where it really comes from – the stroke of the government's pen.

With the federal funds rate already near zero, the Federal Reserve pulled out the big gun and said they would buy up to \$300 billion of Treasury securities. This essentially means one arm of the government is issuing bonds and another arm of the government is buying them. By creating this additional demand for the bonds, the Fed hopes interest rates will drop. So far, it's worked. The yield on 10-year treasuries dropped about one-half of a percent within minutes of the Fed's announcement. Mortgage rates dropped as well, so if you're looking to buy or refinance, now may be a good time.

The long-term effect of the government buying its own bonds is unknown. Some say it is the right medicine and will help foster an economic recovery by keeping interest rates low. Others say it will lead to a currency crisis and ruinous inflation. Investors reacted by sending hard assets like gold and oil higher, the U.S. dollar lower, and the stock market up for a short period then down the next two days.

The kind of money we're talking about now to fix this mess is almost beyond comprehension. Based on its announced plans, MarketWatch says the Federal Reserve's balance sheet may now grow to more than \$4 trillion, up from less than \$1 trillion last fall. And Goldman Sachs economist Jan Hatzious says the Fed may ultimately need to expand its balance sheet to a whopping \$10 trillion to restore economic growth. Viewed from a different perspective, Morgan Stanley economists estimate that interest rates should be negative 5% in order to restore growth. Of course, you can't have negative interest rates so the government is doing the next best thing – it's using everything in its arsenal to bring them closer to zero all along the yield curve.

These are certainly interesting and challenging times, but together we will get through them and ultimately flourish.

Returns through 3/20/09	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrial Average	0.8	-17.1	-41.1	-13.6	-6.3	-3.0
NASDAQ Composite	1.8	-7.6	-35.5	-14.3	-5.3	-4.9
Standard & Poor's 500	1.6	-14.9	-42.2	-16.2	-6.8	-5.1

Sources: Yahoo! Finance, Barron's. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. Three-, Five-, and 10-year returns are annualized. Assumes dividends are not reinvested.

PETER LYNCH, CONSIDERED BY MANY to be one of the greatest investors of all time, was quoted as follows in the 1997 book, *Investment Gurus*:

“There’s a 100% correlation between what happens to the company and what happens to the stock. The trick is that it doesn’t happen that way over one week, or even over six or nine months, and that’s terrific. Sometimes the fundamentals are getting better and the stock is going down. That’s what you’re looking for. The stock market and the stock price don’t always run in synch.”

A corollary to Lynch’s comment is that the stock market and the *economy* don’t always run in synch. Currently, they’re both in bad shape. However, there’s a reasonable probability that they will eventually decouple.

One possible scenario is that the stock market will sniff a whiff of economic recovery and it will start to rise before the economy does. Sometimes these rallies are premature and send a false signal that the economy is ready to roll. We call these occurrences “bear market rallies.” Eventually, one of these bear market rallies may turn into the start of a new bull market. At that point, the economy will need to “confirm” the new bull market by staging its own recovery.

This type of cycle has existed in the financial markets for many years and we don’t expect it to be repealed any time soon. Bottom line – expect the markets to continue vacillating between bullish and bearish swings.

Weekly Focus – Think About It

“Life is the sum of all your choices.”
--Albert Camus

Best regards,

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- * The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks.
- * The Nasdaq Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.
- * Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
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