



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

Weekly Commentary
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The Markets

Sometimes, less bad is actually good.

Investors are clinging to any signs of hope that the economy, if not actually turning the corner, at least has the corner in view now. A slew of economic reports released last week hinted at some possible good news. Out of 12 reports, seven were better than expected and two were at expectations, while only three were worse than expected, according to Bespoke Investment Group. Wall Street has been anxious to see this type of (relatively) good news and investors responded by sending the stock market to a healthy gain last week.

In another sign of good news, the price of a pound of copper rose to \$1.86 at one point last week, up from just \$1.30 in December 2008. Copper has earned the nickname “Dr. Copper” due to its past ability to predict booms and busts, according to MarketWatch. The fact that copper is heavily used in building and manufacturing helps explain its supposed forecasting ability. Russell Napier, author of the book, *Anatomy of the Bear*, is also a big believer in copper’s predictive powers. He wrote, “Of all the commodities, the change in the trend of the price of copper has been a particularly accurate signal of better equity prices.”

These initial shards of good news helped underpin the market’s recent rocket rise. Since reaching its cyclical closing low of 676 on March 9, the S&P 500 has risen just over 20%, according to data from Yahoo! Finance. That’s a remarkable recovery in just 18 days. Technically, it means we’re in a new bull market using the traditional definition of a 20% gain from a previous low. Technicalities aside, nobody is ready to uncork the bubbly.

We’re not kidding ourselves by thinking that all is well on the road to recovery in the economy and the financial markets. It’s just nice to see a few of the speed bumps flattening out.

| Returns through 3/27/09 | 1-Week | Y-T-D | 1-Year | 3-Year | 5-Year | 10-Year |
|------------------------------|--------|-------|--------|--------|--------|---------|
| Dow Jones Industrial Average | 6.8 | -11.4 | -36.4 | -11.6 | -5.5 | -2.5 |
| NASDAQ Composite | 6.0 | -2.0 | -31.7 | -12.6 | -5.0 | -4.7 |
| Standard & Poor's 500 | 6.2 | -9.7 | -38.0 | -14.4 | -6.2 | -4.6 |

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.

RISK AND UNCERTAINTY are two different things and distinguishing between the two may help you be a better investor. We can think of risk as a random outcome that has a known probability distribution while uncertainty has a random outcome with an unknowable probability distribution, according to economist Frank Knight. For example, playing blackjack is risky because the outcome on any single hand is random, but it still has a known probability distribution. Conversely, dropping a bomb on North Korea

would create uncertainty because we have no way of applying a probability distribution to the outcome of that action.

Investing appears to contain aspects of both risk and uncertainty. From a risk standpoint, we have many decades of historical performance and statisticians can easily develop all kinds of probability distributions for expected returns and standard deviations. From an uncertainty standpoint, we have days like October 19, 1987, when the Dow Jones Industrial Average dropped 22.6%. That record drop was effectively outside the practical bound of any probability distribution.

Okay, so what are you supposed to do with the knowledge that investing contains elements of risk and uncertainty? Here are two thoughts. First, don't be overconfident. While you may take some comfort that historical probability distributions can show you what to expect in the future, don't get too confident in that idea. Past performance is no indicator of future results because we have the uncertainty of unexpected events like the October 1987 crash or even the current bear market.

Second, like playing poker, use the odds to your advantage. The market is down about 50% from its all-time high. As long as you believe we're not at the end of the world, then one could argue that the market is a lot cheaper today than it was in October 2007. So, your odds of making a profit from today's market level may be greater than they were back then.

With the right understanding, we may be able to turn risk and uncertainty into allies instead of enemies.

Weekly Focus – Think About It

“And the trouble is, if you don't risk anything, you risk even more.”

-- Erica Jong

Best regards,

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* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

* 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.
- * Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

- * Consult your financial professional before making any investment decision.

- * Past performance does not guarantee future results.