

DSA Communiqué

March 2010

This past weekend was the official beginning of spring. The snow is gone, at least it is here in St. Louis, the grass is turning green and flowers are beginning to bloom. The change in seasons has reminded us how much different things were just a year ago. Last March the Market had reached what turned out to be its' low, and, for many, the attitude was that things might never (or certainly not for a long-time) get better. It was like the coldest, dreariest day of winter. Just as the flowers have begun to bloom, the "Bull Market" has now been underway for a year. With this in mind, we thought it would be a good time to look back and gain some perspective on the past couple of years.

Communication is Key

Our goal is to effectively communicate to you what we're thinking about investments, financial planning issues, the economy, and maybe, even the political landscape. We intend to also use this communiqué to keep you posted on what's going on at Droms Strauss as we continue to grow and enhance the level of services we provide for you.

We welcome your questions, comments and feedback; please contact us at any time.

A look back at 2008 and 2009

As we enter the homestretch of the first quarter of a new year and, we hope, continue to work our way out of the Great Recession, we thought this would be an opportune time to use the first Communiqué of 2010 to look back at some of the tactical changes we instituted as part of our response to the market debacle of 2008 and 2009.

Looking back at the end of 2008 through this first quarter of 2010, there a few key "points of inflection" that we believe has some powerful lessons for future investment planning. In November 2008, we executed our customary "tax loss harvesting." Unfortunately, with the stock and bond markets both in total disarray, we had far too many opportunities to lock in tax losses for 2008 by selling securities held at a loss. As a general rule, we sold stock mutual funds to lock in realized capital losses for 2008 (and carry forward to future years) and then immediately purchased exchange-traded stock funds to maintain exposure to the equity markets. With a high likelihood that capital gains tax rates are going to increase these losses will become increasingly valuable as we use them to offset 2010 and future gains.

With the Dow closing out 2008 at 8,776, down 38% from its all-time high of 14,165 in October 2007, we fervently hoped the worst might be over. December was our

“tipping point” where we had to decide whether we would follow conventional wisdom and rebalance portfolios back to their normal asset allocations. The problem we faced was clear: a portfolio that was 60% invested in stocks at the end of 2007 would now be approximately 50% invested in stocks after the crash. Although firmly convinced that we cannot and should not try to time the market, we did have a sense that rebalancing at the end of 2008 essentially would require selling bonds into a bond market where prices had been irrationally beaten down in order to reinvest in a stock market where no one seemed to know where the bottom was.

Our bottom line was that we made two key decisions at the end of 2008. First, we decided that we did not want to sell stocks into the weakest market since the Depression and that we would do everything we could to encourage each of our clients and friends to “stay the course” with our stock investments. Secondly, we also decided that we did not want to make new equity investments by selling bonds because although we could hope the market had bottomed, there was really no way to know. We had a sense at the time that the market bottom was somewhere in the 7,000 to 8,000 range on the Dow, but even that pessimistic estimate proved to be too high by subsequent events. The net effect was that we decided to hold our existing equity positions but hold off on rebalancing until we could see some “green shoots of prosperity” on the horizon.

We all know now that the Dow eventually bottomed out at 6,594 on March 9, 2009 and recovered all the way to 10,428 by the end of 2009. In our second quarter 2009 newsletter, we noted that “Calendar year 2008 was a market crash of truly epic proportions, but we are beginning to see the seedlings of an economic recovery and we do know that economic recoveries generally are led by a turn up in the equity markets.” This statement laid out our justification for beginning to rebalance portfolios during the second quarter of 2009 and continuing to rebalance through the third quarter.

We believe that one of the lessons we all should have learned is that taking a long-term perspective and working hard to not overreact to difficult, even frightening, times is much more important than trying to call the tops and bottoms of the stock market. We are not aware of any firm or individual that sold out at the market top in October 2007 and then bought back in at the bottom on March 9, 2009. But we do know that staying the course with equities when times were tough, holding off on any precipitous moves during the downturn, and carefully rebalancing back to target asset allocations as we saw signs of life in the economy, stood us in good stead during the worst economic situation that any of us have lived through over the past 40 years. As we go forward, we intend to take this lesson to heart and continue our two-decade long policy of broad diversification across asset classes, diversification within asset classes, and avoiding ultimately futile attempts at market timing.

Roth Conversions

For those with “traditional” IRA accounts -

- Do you expect to be in a higher tax bracket when you retire?
- Will you have sufficient income during retirement that would allow you to “not take” distributions from all or part of your IRA accounts?
- Would you like to leave part of your IRA to your children?

If you answered “yes” to any of the questions above, a Roth Conversion may make sense for you. If you haven’t done so already, please call any of us to discuss whether a Conversion may be right for you.

As always, we welcome any questions or comments regarding these issues, or any issue regarding your investments.

What’s happening at DSA

Droms Strauss has recently formed a wholly-owned subsidiary company, DSA Risk Management, LLC. This new entity allows us to analyze and provide long-term care solutions where appropriate and to better manage other investment products such as annuities. If you have an annuity that you’d like us to review for you please give us a call.

Referrals

Please take a moment to recommend us or share contact information for an individual, family or a business colleague you think could benefit from working with us. With the addition of three professionals over the past three years we’ve increased the depth and breadth of our level of expertise and, just as importantly, our ability to provide you and each DSA client the highest level of service. Be assured that we will regard your friends, family and business colleagues with the highest level of consideration.

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