

DSA Communiqué

September 2010

Droms Strauss is committed to providing you with the highest level of investment management and financial planning services. We welcome your questions, comments and feedback; please contact us at any time.

Our goal is to effectively communicate to you our investment ideas, 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.

Labor Day –

Next Monday is Labor Day, viewed by most of us as the “unofficial” end of the summer. But, Labor Day is really something entirely different. It was first celebrated on Tuesday, September 5th, 1882 and was a creation of the labor movement to celebrate the social and economic achievements of American workers. Two years later, the holiday was changed to occur on the first Monday in September. The first proposal of the holiday described Labor Day as an exhibit to the public “the strength and esprit de corps of the trade and labor organizations”.

Next Monday we might want to consider that over the past 100+ years the labor, creativity and resilience of our entire work force has resulted in America having one of the highest standards of living and the greatest production in the world. In these current difficult economic times we should all remember that our economy will recover and we will continue to enjoy one of the highest standards of living, freedom of choice and democracy like no other place in the world.

LOOKING AHEAD TO 2011

As we head into the first week of September, the Fed has just concluded its annual conference in Jackson Hole, Wyoming. Last Friday, the stock market reacted positively to Chairman Bernanke's comments that the Fed will consider “quantitative easing” (injecting money into the economy by buying more long-term Treasury and mortgage securities) and that the central bank will do what it takes to support an economic recovery. These comments came against a backdrop of the Commerce Department's downward revision of second quarter GNP growth from 2.4% to 1.6%.

Despite the gloomy news, very few economists consider a double dip recession to be a strong probability, but certainly no one expects to see

robust growth kick in anytime soon. Adding the most likely economic scenario of slow growth and a long recovery period to the uncertainty over the new financial, healthcare and geopolitical issues and the virtual certainty of higher taxes next year, have many investors thinking that “desperate times call for desperate measures.” At the very least, many of us are thinking that the last quarter of 2010 may be an opportune time to review our overall investment game plan.

Although these are certainly challenging times, they are not desperate times and desperate actions are not now, or probably ever appropriate when managing your investment portfolio. If you are uncomfortable to the point where you believe “desperate” investment actions are necessary, we would suggest that instead, you let us help you review your Investment Policy Statement. The Investment Policy Statement that we prepared for you is based upon our understanding of your goals, your risk tolerance and the expected timeline for your investment account. The IPS is essentially a business plan for your portfolio, not much different than the game plan followed by a winning team.

There are two sections of your IPS that are most likely to benefit from a little “tweaking.” First, your goals and objectives may have changed and may no longer be consistent with your present objectives. Or, perhaps it might be time to revisit your financial plan (for many – your retirement plan) and determine whether or not changes in your plan, your investments or your personal savings and spending habits might be warranted in light of the past couple of years. It might also be appropriate to talk about what accepted limits of risk you are willing to take to achieve your goals and objectives. The market volatility of the past few years, especially on those “down” days, may have made you rethink the level of risk you can comfortably tolerate.

Second, your investment policy statement includes a section detailing the agreed upon asset allocation that we, at Droms Strauss, follow in managing your investments. It is not only important for us, but it is equally important for you to understand the constraints set forth in the IPS regarding your asset allocation and, if changes need to be made they should be documented in the form of a revised IPS.

If you feel uncomfortable with your investments we definitely need to meet and re-evaluate your goals, objectives and the terms of your investment policy statement to determine what changes are necessary. Smart planning is a much better option than desperate measures.

As we noted in our last Communiqué, corporate earnings are still a bright spot in an otherwise difficult environment. In the aggregate, corporate earnings announcements continue to come in above expectations, and as

many commentators have noted, corporate balance sheets continue to build cash balances. Unemployment is easing, inflation is nearly non-existent, interest rates are low, and although the economy is growing slowly, it is growing. As the Wall Street Journal pointed out last week, Goldman Sachs has the least optimistic GDP growth forecast at 1.5%, and even their bearish outlook estimates no more than a 20% to 25% chance of a double dip – not an insignificant chance, but nonetheless unlikely. With the S&P 500 trading only a bit above 12 times next year's earnings, stocks are not overpriced. Envisioning the economy and the markets two to three years out, we expect that we will see positive returns over the next two to three years as the economy works its way free of the last vestiges of the Great Recession. Hence we believe it makes good sense to remain invested in a diversified portfolio consistent with your financial situation and risk tolerance.

Finally, a note on diversification. We structure all of our client portfolios to be very broadly diversified among asset classes and within classes to enhance returns and reduce risk. Across classes, we hold U.S. bond funds, international bond funds, U.S. stock funds, including structured notes in larger accounts, international stock funds, REIT funds and commodity funds. And within each of these classes we further diversify by style and market exposure holding multiple individual funds. In effect, we have your investment eggs spread out among many different baskets, with more than one egg in each basket.

What's happening at DSA

Steve and Bill are busy organizing an investment summit of our own – arranging for a meeting in early October in New York with principals of other registered investment advisory firms along with experts in the areas of fixed income investments, dividend oriented equity investments and alternative investments to evaluate various investment strategies. We will also be discussing client reporting and communications, all in our efforts designed to provide our clients with the best of the best investment ideas and practices.

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.

Contact Us

William G. Droms, CFA

bill@droms-strauss.com

Steven N. Strauss, CPA/PFS

steve@droms-strauss.com

Michael S. Murphy

mike@droms-strauss.com

Robert J. Hines

bob@droms-strauss.com

Rachel A. Strauss

rachel@droms-strauss.com