



**Ted Sarenski CPA/PFS,  
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**YEAR TO DATE  
PERFORMANCE (2009)**

**Dow Jones Industrials: -12.5%**  
**S&P 1500 Composite: -11.1%**  
**S&P 500 (Large Cap): -11.0%**  
**S&P 400 (Mid Cap): -8.66%**  
**S&P 600 (Small Cap): -16.8%**  
**Int'l Developed Mkts: -13.9%**  
**Int'l Emerging Mkts: 0.52%**

**YIELDS & RATES**

**2-Yr T-Bond Yield: 0.80%**  
**5-Yr T-Bond Yield: 1.67%**  
**10-Yr T-Bond Yield: 2.67%**  
**30-Yr T-Bond Yield: 3.53%**  
  
**30-Yr Mortgage Rate: 4.20%**

## We Didn't Start the Fire!

Billy Joel released his #1 hit "We Didn't Start the Fire" in November 1989. The song chronicles significant world events from 1949, the year of his birth, through his 40th year. The history buffs among us like to reminisce over each of the multitude of events he mentions, both good and bad, and recall what was going on in our own lives at the time. We recall the good events and smile as we remember the happiness they brought us, and we recall the bad events with remorse that they occurred and thankfulness that we survived them. As we review the past, the good times seem better and the bad times don't seem as though they were as bad.

Today we are reminded twenty-four hours a day of the bad that is occurring in our world, by a media that surrounds each event with a sense of urgency and importance that implies that it is unprecedented. Yet, we awake each day and go about our lives because the most important issues to each of us is our health, our family and friends, and their well-being. We cannot ignore the events of the world, but we also cannot let the news of those events consume us.

The financial news and the financial markets have their own parallels for each event in history. The financial markets rise and fall throughout time. Historically, the rising years outnumber the contracting years three to one. Events of the past such as the double digit inflation of the late 70's and early 80's don't seem as bad now as they did when we were focused on them at the time. We would like you to be able to spend less time focusing on current financial events, since history tells us their impact will soften as the years progress, and spend more time living without worry.

I suggest that you reduce the amount of time you spend listening to and watching the media and to get on with living your life the way you would like to live it. You should be able to go to sleep each night and dream of the wonderful things you can do tomorrow. We're here to assist you in planning your finances in order to live the life you want. If we've prepared a financial plan for you already, then you have the tool you need to free yourself from financial worry. If we haven't prepared a plan for you, we want to do so this year.

Please call us if you want to get started on a plan today. Or if you prefer, we can discuss it at our next meeting. We would like each and every one of our clients to be as free of financial worry as possible, to be free to live your lives to the fullest and enjoy those who mean the most to you.

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**Kevin Vandenberg MBA, LIFA**  
 Director of Managed Portfolios

*“While the specific means and timing of the end of the economic decline and bear market remain uncertain, there are historical patterns that may provide an inkling of how a market turnaround may unfold.”*

## How Will This Bear Market End?

This past quarter was definitely one of grave concern as the S&P 500 reached a decline of 57% from its September, 2007 peak. Lower bank earnings, more possible capital raises, very poor economic indicators and extremely high jobless claims all combined to produce an investor panic that reached a crescendo on March 9th. A 20% increase in the following 16 trading days provided some relief but the market still ended lower by almost 12% for the quarter. This marks the seventh quarter in a row that the market has been down, although the month of March ranked in the top 20 in terms of returns over the last fifty years.

The most important question on investors' minds is, when will all of this end? There is little doubt that the current economic backdrop remains dismal as new data continues to bounce along multi-decade lows, and the rest of the world is in similar shape or even worse. It is human nature to assume that we will continue this dreary downward spiral both economically and financially. However, this type of self-reinforcing, negative psychology was said to be commonplace in every other economic downturn that has occurred throughout history. The typical actions/reactions of a recession are as follows: When an economy enters a recession, business responds to lower profits by cutting investments and laying off workers. Consumers respond to job losses by cutting spending. Banks also tighten lending standards and pull back on credit due to the deteriorating credit-worthiness of businesses and individuals. This leads to further layoffs, lower consumer spending and tightening of credit....and on and on. All of these negative trends reinforce each other to perpetuate a deepening economic downward spiral, and it's difficult to envision how the chain can be broken. However, that's where government spending and economic stimulus come in to break the cycle. We are beginning to see some of that happen now.

Back to the question at hand: when will it all end? While the specific means and timing of the end of the economic decline and bear market remain uncertain, there are historical patterns that may provide an inkling of how a market turnaround may unfold. In our opinion, there are three methods in which investors may witness the end of the current bear market and we detail them below.

1) The market rebounds early or begins to turn 6-9 months before the economy begins to rebound and patient, long-term investors capture these gains. We believe this is the most likely scenario as the market is anticipatory and “leads” the economy. This is demonstrated by the stock market's inclusion in The Conference Board's Leading Economic Index. For instance, the market sold off in October of 2007 in advance of our current recession, which officially began in December of 2007. The larger market declines in the fall of 2008 were precursors to a more severe economic contraction in late 2008 and early 2009. Historically speaking, the market has typically turned up well in advance of an economic recovery. During the 14 recessions since 1926, the stock market has bottomed half way through the economic recession, which is normally month 6 of the 11 month average recession. Even during the worst of the Great Depression, the market bottomed 9 months before the end of the 1933 recession. Historically speaking, the market dismissed dismal current economic conditions and rallied in spite of worsening unemployment data and overall contraction of the economy. Mostly, the end of recessions are estimated by adding 6-9 months to

*“Missing the early portion of a new bull market can significantly affect the long term performance of your portfolio, and ultimately, your lifestyle during retirement.”*

the beginning of stimulative measures such as lower interest rates, fiscal policy changes and governmental incentives to bolster the economy. We’re currently in that “sweet spot”.

2) Investors miss first part (easy money) of the next bull market. During bear markets, especially those as severe as our current one, investors tend to reduce their allocation to equities and move safely into cash. A common catchphrase from investors is that they will “wait until things get better” to restore their equity allocation to a level that is consistent with their long term investment strategies. Investors typically wait for some positive news on the economy or to see that the market has sustained some kind of a positive trend. By then, it’s likely they’ve missed a major part of the new bull market. This pattern of behavior is demonstrated by taking a look at the end of the 2000-2002 bear market. Investors moved into a record high cash position at the end of 2002, during the period when the market was bottoming after a three year downturn. It took investors until roughly February of 2004 (15 months after the end of the bear market) to reduce their cash positions to an average level. During that time, investors missed the first 30% of the 87% gain from 2003-2007 (more than one third of the gains).

3) Late investors miss a major part of returns. If the market rose steadily or accrued most of its gains later in the economic cycle (which it definitely does not), then sitting out the initial rebound would be a small price to pay for the safety and security of making sure the bear market has truly ended. However, the reality is that returns in the market are just the opposite. Bull market returns tend to be front-end loaded, with the bulk of the returns occurring in the first portion of the cycle. Being late to the market can be a high price to pay. For example, evaluating all of the bull markets since 1930, we find the first month to return 12% of the entire bull market gains. Within six months, 27% of the bull market gains are normally seen while the first year provides 40% of the gains (with an average return of 45%). So, despite the fact that bull markets typically last an average of three years and have even spanned an entire decade, the biggest bang for the buck is seen in the initial months of the new cycle. Therefore, missing the early portion of a new bull market can significantly affect the long term performance of your portfolio, and ultimately, your lifestyle during retirement.

All of the above considered, we do not believe the markets are totally out of the woods yet with regard to volatility. Rather, we feel that volatility will be here to stay for quite some time. Yes, there have been some signs that the economy is slowing its decline, that the banks are not in as poor of a position as previously thought and the financial markets have begun to respond positively. However, there will be setbacks and disappointments, and these may come as soon as this quarter’s earnings reports and future guidance for the rest of the year. A pullback to DOW 7000 level or 740 on the S&P is also not out of the question after the spectacular run we have had, but a more shallow decline down to 7200-7500 or 785-800 is more likely.

Now that we are beginning to see some light at the end of the tunnel, we will view these pullbacks as opportunities to build long term positions in strong companies and mutual funds that will be core holdings over the next 3-5 years. There are many bargains in the marketplace and we will be actively shopping for deals over the next 3-6 months.



**Gail Gardner MBA, CFP, ChFC**  
Director of Financial Planning

*“We’re considering eliminating our first three quarterly statements...”*

## Too Much Paper!

With lots of attention being focused on the environment lately, especially here in Syracuse, it seems a fitting time to take steps to reduce our ‘carbon footprint.’ We’ve gotten feedback from more than a few clients who would rather not receive so much paper. Currently you are receiving, at minimum, monthly account statements directly from Fidelity, as well as quarterly account statements from DB&B Financial Services, LLC. Our first three quarterly statements sum up activity for the period and provide current values, including accrued interest, which isn’t reflected on the Fidelity statements. The final quarterly statement includes a summary of your account performance for the year.

We’re considering eliminating our automatic mailing of the first three quarterly statements, since you are already receiving most of the information on a monthly basis. We would like to do this in coordination with the launch of our new website, which will include a direct link to log in and view your DB&B accounts with a username and password. You would still, as always, be able to request a paper account summary from us at any time. In addition, if you prefer to continue receiving printed quarterly statements, we can continue to mail them to you.

We will also be embarking on an effort to gather more of our clients’ email addresses in order to enable us to send more timely information on the market, investments, tax strategies and financial planning topics when necessary. You will have the option to receive the quarterly newsletter via email as well.

These items are still in the works, but we wanted to get the word out ahead of time, so you can provide us with any input you have on the intended changes. Feel free to call, write or email us with any questions, concerns or comments about the proposed changes.

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