



February 5, 2010

D3 Business Update:

Taxes Taxes Taxes, the most wonderful time of the year! Patty has contacted all of our Comprehensive and Retainer clients to either schedule a portfolio performance review or request tax return information. Some clients had already sent their documents to us before Patty called them. We do appreciate this! Please call us to schedule a meeting or feel free to drop off your tax documents any time.

D3 Market Comments:

The correction in the stock markets that many strategists forecast last year has finally arrived. There has been a *global* downturn in stock prices. The strong earnings growth reported by many U.S companies over the past month has been overshadowed by uncertainty regarding global economic growth and financial stability. **This is a reminder to all investors that stock prices in the U.S., Europe, Asia, and Latin America are increasingly inter-connected; even though the projected economic growth rates for countries on these continents are very different.** Growth rates for the U.S. and Europe are expected to be around 2%-3% in 2010, but are projected higher than 5% in Asia and Latin America.

Three reasons have been cited as triggering this correction. First, the Chinese economy is growing at a rate close to 10% (the fastest growth in the world) and real estate prices are soaring. Consequently, the Chinese government has begun to force the banks to restrict lending to try to slow growth. Second, there is a growing fear that Greece will be unable to issue new debt to finance its large budget deficit, and require a bail out by other European countries. A recent announcement by the European Union pledged to support Greece, but it didn't provide details on the type of support. Third, the Obama administration has proposed new legislation that is meant to protect taxpayers from future bank bailouts by significantly restricting the riskier strategies that banks currently employ to earn huge profits.

Global stock markets rallied last year in anticipation of economic growth in 2010, and the absence of new financial disasters like the bankruptcy of Lehman Brothers. These three situations add some uncertainty to this outlook, and will some take time to resolve themselves. Investors don't know if, and how much, the Chinese government will be able to slow the economy. **Solutions to the Greek situation and any new banking legislation here in the U.S. will be motivated by politics, not economic policy, thus heightening the uncertainty.**

Here in the U.S., the economy grew at 5.7% last quarter, due primarily to companies rebuilding their inventories. CEOs have grown more confident that the economy is in a recovery mode. Corporate earnings were strong, with many companies reporting improving sales higher than Wall Street analysts expected. Additionally, fewer job cuts were announced. Manufacturing levels and exports continue to rise, helped by a weaker U.S dollar, and faster economic growth in countries that buy U.S. goods. As a reminder, manufacturing is less than 20% of our economy, and most economists expect the U.S. economy to grow in a 2% to 3% range for 2010, levels much lower than the U.S. has experienced in previous economies recoveries. Consumer spending is the primary driver of economic growth in this country, and it is being negatively impacted by a stubbornly high unemployment high rate and an American consumer who is currently more inclined to pay down debt and save money, than spend. While increased savings is

5151 Mochel Drive, Suite 301, Downers Grove, IL 60515
(630) 271-0033 Phone / (866) 385-8998 Fax
www.D3FinancialCounselors.com



good for the average American household and long term investing, lower consumer spending does not motivate businesses to hire more workers. Economists refer to this as the “Paradox of Thrift.”

D3 Investment Outlook:

We have been reviewing our asset allocation models, with the objective of increasing our allocations to those asset classes that we think are likely to generate stronger returns. Additionally, because we are anticipating an extended period of slow economic growth, we are reducing the long-term rates of return that we anticipate earning from different asset classes like cash and fixed income.

Consequently, we plan to increase allocations to the equity income and international sectors for our asset allocation models that have higher exposures to the stock market. The equity income funds are managed with the objective of combining dividend-paying stocks and bonds to generate income, with price appreciation as a secondary contributor to returns. We have also lowered the average rate of returns that we expect to earn on our different asset allocation models. We will discuss with you in more detail the potential impact of this outlook when we meet later in the year to review your annual financial plan update.

Don attended an economic presentation by William Strauss, Senior Economist at the Federal Reserve Bank of Chicago. Mr. Strauss provided further evidence confirming our views that the U.S. economy is likely to experience slower growth, compared to recoveries from previous recessions. He did present some good news. Based on his analysis, primarily because new homes are being built at a very low rate; not experienced since the end of World War II, he postulated that home prices have already reached the low levels of this economic cycle. He did not expect a dramatic increase in home prices, but was pretty confident that home prices had, at least, stabilized, even taking into consideration the supply of foreclosed homes currently owned by the banks.

As always, thank you for your confidence in us! You should know that we are accepting new clients. Please keep us in mind if you know someone that needs financial help, or has questions about investments or retirement planning.

Donald D. Duncan MBA CFA™ CPA CFP®
Peter Marchese MBA CFA™
Michael Meyers MBA CFP®

Becky Connery MSIA, Financial Planner
Adam Glassberg, Financial Planner
Patty Shipinski, Administration