



October 13, 2009

### **D3 Business Update:**

Three bits of good news:

1. Congratulations to Becky. She passed the July CFP® exam.
2. Don was elected as Chairman of the Downers Grove Area Chamber of Commerce.
3. Our website ([www.D3FinancialCounselors.com](http://www.D3FinancialCounselors.com)) has a completely new look. Please check it out and give us your feedback.

### **D3 Market Comments:**

Last month, we wrote that, despite the rising stock market, we were concerned about both the durability of the stock market rally and the recovering U.S. economy. We're still concerned. Governments all over the world have flooded the global financial system with money, driving interest rates in many developed countries below 1%. Investors, frustrated with earning less than 1% in money market funds and bank CDs, are rapidly moving their cash into riskier bonds and stocks, driving up the prices to levels at which they are no longer "cheap." Yields on most non-government bonds have fallen to levels that investors were earning before this crisis began. Yields on municipal bonds are at historical lows. **However, regarding stock prices, there remains a heated debate among some veteran strategists whether stocks prices are now expensive, or still attractive.** Some of the first companies to announce 3<sup>rd</sup> quarter earnings have exceeded Wall Street estimates, which is propelling stock markets higher. Many more companies will have to exceed Wall Street earnings estimates for this rally to continue. Historically low interest rates helped to create the housing market "bubble" from 2003 to 2006. Are low interest rates creating a new "bubble" in the stock market? Some strategists are starting to believe that. With so much slack in the economy, we think the jury is still out.

We're hearing that despite low interest rates, it's increasingly difficult to qualify for mortgage or a small business loan. Unemployment continues to rise to 29 year high levels. The media reports a current unemployment rate of 9.8%, but doesn't take in to consideration the people working part-time *involuntarily*. If they are included, the rate rises to 17%. The level of consumer debt in the U.S. is still near historic highs, and Americans continue to pay off their debt at a rapid rate. Consequently there is a debate about out how consumer spending will rise enough to create long-term sustainable growth in the U.S. economy next year. **Economic statistics are beginning to show improving growth rates, but the level of current economic activity is still lower now than it was last year.**

Despite the rising stock market, some investors are skeptical. Recent mutual fund data indicate that some investors are selling both stock funds and money market funds, and adding to their holdings of bond funds. We still don't have a strong enough conviction on the likelihood of a stock market downturn to motivate us to reduce clients' equity exposure, but we're closely watching earnings reports, spending reports and economic reports to help us make this decision.

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**Our Current Strategy:**

**With year-end approaching, we are reviewing all client accounts, looking for securities which have underperformed and are appropriate to sell to harvest tax losses.** We are continuing to reduce clients' holdings of money market funds, investing the cash in short-term bond funds, which are still positioned defensively if interest rates were to rise dramatically. We are considering adding to our existing holdings of inflation-protected bond funds and emerging markets bond funds. These funds have performed strongly this year, but we still think they have a little more upside potential.

For clients still needing a little more exposure to the stock markets, we are investing defensively. The stocks of large, moderately growing companies, that pay dividends, have underperformed the stocks of smaller, riskier companies in this market rally. We think these stocks, categorized as "Value-oriented," will outperform if the rally stalls, or the market begins to drop.

**Consequently, we are adding exposure to "Value" funds, or "Income" funds, which heavily invest in these stocks. We are also adding to international funds, in which managers can search the whole world for undervalued stocks.**

**D3 Client Update:**

**Please mark December 5<sup>th</sup> on your calendar** for our annual Client Appreciation Dinner. It will be held at Emmett's Restaurant on Main Street in downtown Downers Grove (1 block east of our office). We will be sending out a formal invitation in early November.

**Don will be conducting an education seminar** at the Downers Grove Park District, Lincoln Center **on November 5<sup>th</sup> at 7:00pm**, covering year end tax planning and how to invest in a low interest rate environment. Please call if you want additional information.

For your review, we have attached an interesting, almost mind boggling, summary of some of the facts surrounding the financial crisis and the credit recession. These numbers are eye opening. Immediately following is Becky's Identify Theft Best Practices Paper. **Please review this.**

Lastly, your fourth quarter invoice is attached. Thank you for letting us help you achieve your financial goals.

Donald D. Duncan MBA CPA/PFS CFA™ CFP®	Nancy Lencioni, Office Manager
Peter Marchese MBA CFA™	Becky Connery MSIA, Financial Planner
Michael Meyers MBA CFP®	Adam Glassberg, Financial Planner



## **Some Historic Facts Surrounding the Financial Crisis and the Great Recession**

**From TIM PARADIS, AP Business Writer : Oct 10, 2009**

A year ago this weekend, the Dow Jones industrial average had just finished a slow-motion crash. Over eight days, it fell 2,400 points, or 22 percent, and stood at 8,451. One year later, the Dow is at 9,865. It's up 51 percent from a 12-year low of 6,547 on March 9 — when some investors feared the financial world was coming to an end.

But the complete story of the Dow's journey since the economy soured goes back a little further. Two years ago this week, on Oct. 7, 2007, the Dow set its record high of 14,164. What followed was a three-act play. For five months, from October 2007 through the collapse of investment bank Bear Stearns in mid-March 2008, the Dow fell 2,000 points in an orderly fashion as investors anticipated a garden-variety recession. From mid-March until Labor Day, the Dow rose and fell but was little changed. Right after Labor Day, Fannie Mae, Freddie Mac, Lehman Brothers and AIG failed over 10 days. The credit markets froze, and investors panicked, fearing another Great Depression. There were rallies amid the downward spiral that ensued, but over six months — until the low on March 9 — the Dow fell 5,000 points.

So where do we stand today? The seven-month rally since March has yet to wipe away all the losses, but few expected that the Dow would be edging back to 10,000 so soon. Unemployment is close to 10 percent, but other parts of the economy are stabilizing. Consumers are still hunkered down, but retail sales showed a slight gain in September. The panic of last fall has been replaced by the resignation that the worst is over but it might be years before the economy booms again.

"The problems that we're dealing with — there's a little bit less urgency," says Alan Levenson, chief economist at T. Rowe Price Associates. "We've stopped what could have been fatal bleeding."

Here's a by-the-numbers look at the stock market and the economy since the eight-day crash one year ago:

- \$11.2 trillion: Total losses in the stock market from the Dow's peak in October 2007 to the March 2009 bottom.
- \$4.6 trillion: Total gains in the stock market since March 9.
- 6: The number of the 10 worst point drops in the 113-year history of the Dow that occurred in 2008. The 777-point drop on Sept. 29, 2008, ranks No. 1.
- 3: The number of the 10 worst percentage drops that occurred in 2008. The Sept. 29 decline of 9 percent is the third-biggest behind 22.6 percent on Oct. 19, 1987, and 10 percent on April 14, 2000.
- 92 percent: Decrease in Citigroup Inc.'s share price from Oct. 10, 2008, (\$13.90) to March 9 (\$1.05).
- 341 percent: Increase in Citigroup's share price from March 9 to Friday's close of \$4.63.
- 18-20: The historical average for the Volatility Index of the Chicago Board Options Exchange, also known as the VIX, or "Fear Index."
- 89: Where the VIX peaked last October.
- 23: Where the VIX was on Friday.

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- 16 percent: The amount by which the Dow's closing level on Friday was higher than its average close the previous 200 days. Earlier this month the number hit 20 percent, the highest since the early 1980s.
- \$6.5 trillion: Value of assets in stock mutual funds at end of 2007.
- \$3.7 trillion: Value at the end of 2008.
- \$4.5 trillion: Value at the end of August.
- -\$72 billion: Net cash flow (money put in minus money taken out) for stock mutual funds in October 2008.
- -\$25 billion: Net cash flow in March.
- \$4 billion: Net cash flow in August.
- \$9: The amount, out of every \$10 investors put into mutual funds in August, that went into bond funds.
- \$855.40: The price of an ounce of gold on Oct. 10, 2008.
- \$1,048.60: The price of an ounce of gold on Friday.
- 6.2 percent: Unemployment rate a year ago.
- 9.8 percent: Unemployment rate today.
- 95.2: Consumer confidence two years ago. Reading above 90 means the economy is on solid footing; above 100 signals strong growth.
- 25.3: Consumer confidence in February — record low.
- 53.1: Consumer confidence today.
- 2.8 percent: Decline in retail sales in October and December 2008.
- 2.7 percent: Increase in retail sales in August.
- 4.75 percent: Federal funds rate two years ago.
- 1 percent: Fed funds rate last October.
- 0 - 0.25 percent: Fed funds rate today.
- 4.81 percent: London interbank offered rate (LIBOR), the amount banks charge each other to borrow money for three months, at its peak, on Oct. 10, 2008.
- 0.28 percent: Three-month LIBOR rate Friday.
- -0.5 percent: Personal savings rate in 2005 as home prices were soaring.
- 6.9 percent: Personal savings rate in May.
- \$975 billion: Credit card debt held by Americans last September.
- \$899 billion: Credit card debt held at the end of August, down 8 percent.
- 7 million: Home resales in 2005, a record year.
- 4.5 million: Home resales in January at annual rate.
- 5.1 million: Home resales in August at annual rate.
- \$245,000: Median price of homes sold in 2006 — record high.
- \$213,000: Median price of homes sold last October.
- \$195,000: Median price of homes sold in August.



## **IDENTITY THEFT BEST PRACTICES PAPER**

### **Things you can do:**

1. Shred, rather than recycle or discard in the trash, all mail and documents that contain identifying information such as name, birth date, Social Security number, and of course any account numbers.
2. All credit card offers should also be shred. If you would like to receive fewer of these offers, you can “opt-out” for 5 years by calling 1-888-5-OPTOUT (567-8688) or visit [www.optoutprescreen.com](http://www.optoutprescreen.com).
3. Don’t carry your Social Security card, keep it in a secure place.
4. Obtain your credit report, also called your credit file disclosure, at least once every year, from each of the nationwide consumer credit reporting companies. You can obtain this information by calling 1-877-322-8228, going to [www.annualcreditreport.com](http://www.annualcreditreport.com), or by mail. We have copies of the Annual Credit Report Request Form in our office if you would like one. You can ask for all three agency reports at once, or stagger them throughout the year.
5. Always put your outgoing bills into the mailbox. Do not leave them out for the postman to pick up – anyone can take them.
6. Never discard a computer without having the hard drive wiped clean first.
7. Secure personal information in your home, especially if you employ outside help or are having work done in your home.
8. When placing passwords on your accounts avoid using easily available information such as your children’s birthdays or your phone number.

### **Things to watch for:**

1. If you fail to receive a bill or other mail. A missing bill could mean an identity thief has taken over your account and changed the billing address.
2. Receiving a credit card you didn’t apply for.
3. Being denied credit, or being offered credit on less favorable terms for no apparent reason.
4. Getting calls or letters from businesses about merchandise or services you didn’t buy.

### **What we do at D3 Financial Counselors to protect your information:**

1. We never release client information to third parties except at your request, or with your prior approval.
2. All account transactions are checked daily.
3. We maintain virus protection and firewall programs on our computers.
4. We work in a secure building and are vigilant in keeping our client information safe. Our building has a timer limiting entry to only business hours.
5. Any documents that we do not need to keep are shredded, to protect your identity.
6. We carefully screen all service providers.

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