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Cadence clips

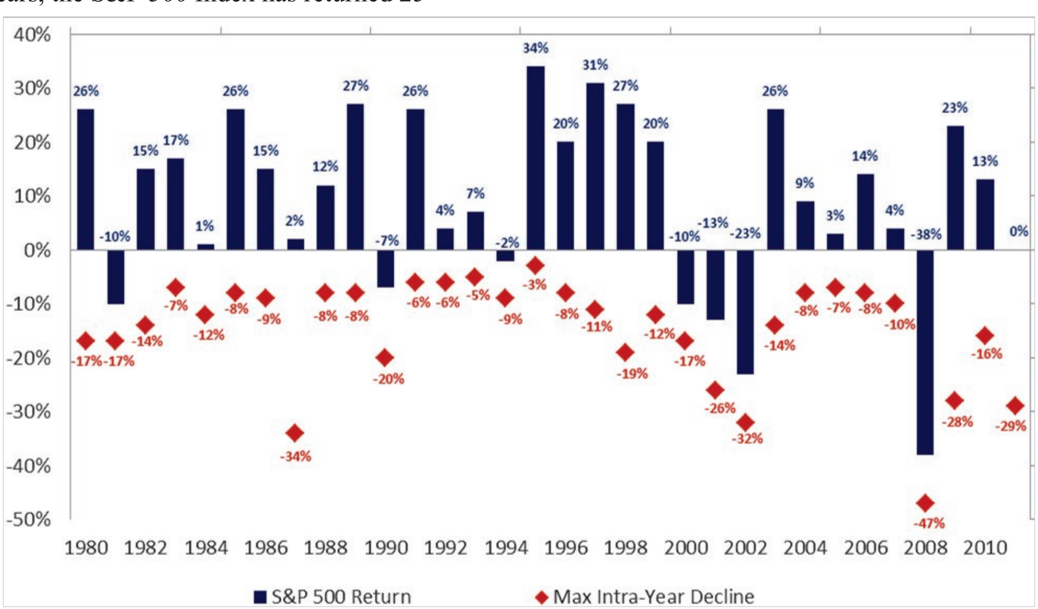
HELPING OUR CLIENTS BUILD AND MAINTAIN WEALTH WITH AN UNWAVERING FOCUS ON CLIENT SERVICE AND COMMUNICATION.

Bumps in the Road - Are they necessary?

As much as we'd like to, we cannot eliminate all the ups and downs within our portfolio. As sure as the sky is blue, markets will always bounce around – some days more than others. Declining periods can be unsettling, but not all volatility is bad.

Without volatility, we would not have the potential for gain. Risk of loss leads to possibility of reward. Think about it - gain is the reward for taking risks; therefore, we cannot expect gains without some risks. At Cadence, we try to focus the risks we are taking to be productive and worthwhile and eliminate as many avoidable and wealth-destroying risks as possible.

Over the past 32 years, the S&P 500 Index has returned 25 positive annual returns. The average annual gain of those 25 years was 16%. However, those 25 years also had an average intra-year decline of 10.5%. In other words, at some point before getting that average 16% annual gain, you would have had to endure an average of a 10.5%



draw-down at some point during the year. The most recent three calendar years alone averaged gains of 12%, while their average intra-year declines were -24%.

Seeing your accounts lose 10.5% in value can be unsettling, yet most would be willing to tolerate it if they were getting 16% returns every year. The lesson – we really can't get the good without the bad. We must be willing to tolerate losing value in volatile periods in order to achieve the eventual gains. And what about the other 7 years that didn't end so well? This is where having a strategy that's more than just buy and hold can really help protect you. At Cadence, we've designed solutions that can help our clients do exactly this. By using a sound unemotional approach in trying to minimize exposure to those bigger bumps that may derail markets over a longer period of time, we reduce the risk that poor economic or market conditions pose to our financial well-being.

What's Happening in the Market - Our Take

Well, another month and a bit more of the same – more news out of Europe, disappointing economic results, and volatility in the markets as a result. No doubt an environment where one needs a sound investment game plan in order to carry on with their daily lives with confidence toward the long-term.

Just as doubt re-emerged about whether Europe would be able to solve its debt crisis, Mario Draghi, president of the European Central Bank, made a statement that clearly instilled confidence in the markets.

"Within our mandate, the ECB is ready to do whatever it takes to preserve the euro. Believe me, it will be enough."

Draghi's thinking seems to be much more aggressive and open than that of his predecessor Jean Claude Trichet, which to us is good news for global markets. However, it remains to be seen whether the ECB can marshal the cooperation of key European sovereignties and central banks needed to implement the firewalls and backstops necessary to stem the crisis. Keep in mind the crisis we're referring to is the potential collapse of certain European governments such as Spain and Italy as a result of their bond yields spiking to unsustainable levels and the subsequent effect on financial markets. Although there's no easy way out of their debt situation (nor should there be), avoiding a collapse is something that everyone should have an interest in, and for that reason we really are wishing the ECB and Euro members success in their efforts.

Here at home we continue to see evidence of economic stagnation. GDP for the first quarter came in at 2% and for the second quarter, 1.5%, neither of which are high enough to lead to any meaningful reductions in the unemployment rate which stands at 8.2%. There's also evidence out of China that their economic growth engine may be stalling. Their most recent Purchasing Managers Index fell to an eight month low of 50.1 in July, which is very close to signaling contraction in the manufacturing sector of their economy. So, it seems the globe is really feeling the effects of what's going on in Europe, making the prospect of slower economic growth a reality.

However, we seek some comfort in the fact that it's usually the risks we're not aware of that hurt us. At present, everyone's very aware of the threat that a European crisis presents, thus removing the element of surprise to some degree. The chart to the right highlights the performance of the S&P 500 in July. You'll notice that although

Olympic Fun Facts

The host nation has won 54% more medals, on average, than it typically does.

2012 Total Medal Forecasts:

United States = 108
China = 98
Russia = 74
Great Britain = 65

Goldman Sachs Global Economics, Commodities and Strategy Research, July 2012 the market edged higher for the month, it certainly didn't do so in a straight line. We expect more of this going forward given the degree of uncertainty that exists. We urge our clients to remember two things:

1) Expect volatility over the short term. It's a reality that can't be avoided if we expect or need returns greater than what cash will offer. It's normal and acceptable so long as it's within the context of a sound investment plan.

2) Opportunities will exist even in a slow or no growth economic environment. Don't assume that a weak economy necessarily means poor portfolio returns. A sound investment plan takes these contingencies into account and seeks to navigate them.

Have a great August!

Cadence Wealth Investment Department