

90% of the Game is Half Mental

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Despite a number of global uncertainties and a temporary market setback early in the year, stocks were able to retain their positive momentum and post strong gains in the first quarter. Funds continued to flow out of bonds and into stocks as economic data improved and the recovery marched on at a moderate pace. The labor environment, always a critical factor at this point in the cycle, showed signs of improvement. In addition, companies continued to impress investors with good earnings results, high productivity growth and margin expansion. The Federal Reserve's aggressive quantitative easing program also helped boost stocks, in our opinion. As we anticipated in our communications over the last year, a lack of attractive investment alternatives has also helped to make the stock market the beneficiary.

The market advance in the first quarter was characterized by low trading volume on most days. Many investors remained on the sidelines, still fearful of the high volatility that was commonplace in the stock market over the last few years. However, we think it is critical to remind our clients of the importance of having a well-thought-out investment plan. We continue to believe that one of the best ways to help build a retirement nest egg over time is to invest in stocks. We encourage our clients to have a plan that looks out further than the next few quarters. Our analysis suggests the U.S. economy will continue to grow at a modest pace over the next 12 months and that inflation will remain under control despite the recent increase in the price of oil.

On another note, I'm growing weary of the intensity of media reporting. Just for a moment, concentrate not on the message but the delivery of the message. CNBC can easily become an addiction, with a focus primarily on minute-to-minute "breaking news", accompanied by a sound that can best be described as a cruise missile flying overhead. This media "experience" prompts a visceral response in even the most laid-back of observers. Even the rebranding of news shows puts one on edge: Wolff Blitzer's "Situation Room" and the Weather Channel's "Extreme Weather". I mean really...I've heard it referred to as "financial pornography", which I think captures the tone quite well. Minute-to-minute reports, critical only to day traders, mask the more important long-term trends, such as the economic recovery, low but potentially rising interest rates, the falling dollar, and strong commodity prices. As the great philosopher Yogi Berra once said, "90% of the game is half mental."

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