



Cornerstone Commentary

Key Points

- ◆ Clients fear running out of time
- ◆ The S&P 500 has gone virtually nowhere in over 11 years
- ◆ Investors are taking on more risks to make up for lost time

Running Out of Time

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"...And then one day you find ten years have got behind you No one told you when to run, you missed the starting gun"

Time – Pink Floyd

Greed and fear are normally the two emotions that drive markets. Greed sends markets higher, fear sends markets lower. This was true, until this year.

We have observed that fear has gripped investors in a way I've never seen in my 24 years in the business. It is not the fear of losing money. It is not the fear of another market decline or economic collapse. It is the fear of running out of time.

"Every year is getting shorter..."

The fear of running out of time seems to be pervasive. Out of time to save up and invest for whatever it is – retirement, college planning, etc. There is almost a panic among investors to not only get fully invested, but to get more aggressive. Since many have lost the last 10 years of growth in one year, they believe they need to make it all back again as fast as possible!

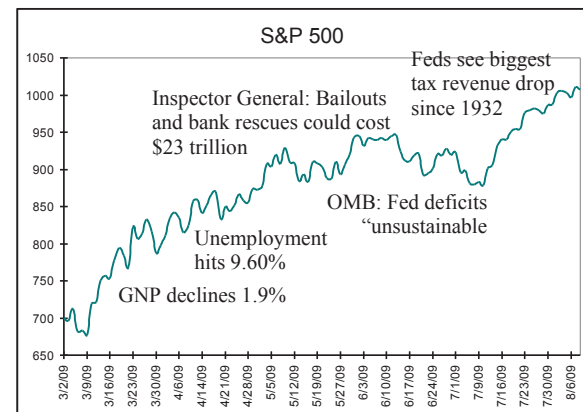
A retirement that might have been a couple of decades or more away at one point, now looms large as the years tick down. The 401k that was on track to fund a comfortable retirement of golfing and traveling now looks like it won't be able to generate enough income to buy gas to get them to their part time job as a Wal-Mart greeter.

It isn't fear investors are feeling – it is outright panic!

(Yes, there are those that have gotten out of the markets and are hiding in the relative safety of bank CDs, T-Bills and money markets. Many of these investors have reacted to the potential for the markets to get worse and can't see any way to profit from the declines. These investors are acting on their fear in a way investors have for centuries. It is not these investors that concern us.)

Lessons not learned...

It is as if 2008 didn't happen, or it was just a bump in the road to their goal. There is very little appreciation for how close the economy came to complete collapse or how close we still are. They don't get it that the programs, bailouts and buyouts from Washington are nothing more than a stopgap, not a solution to our economic and financial problems. As worse economic numbers pile up, there seems to be a palpable disregard of reality and a choice to go forward into the riskiest parts of the investing world.



Some of the worst economic news came from Washington. As the eroding fundamentals of the economy become clearer, investors seemed to ignore the bad news and sent the stock market up- about 50% off its lows in March. (See above)



We believe that the information coming from Washington shows that the problems of debt and inflation will likely become worse and last for years.

These are not the bedrocks of good, solid economic growth or equity investment.

"And balanced on the biggest wave You race towards an early grave."

Unsatisfied with the low yields on short term CDs and money markets, investors have been looking for higher



As Seen in

Forbes

Cornerstone Investment Services has been chosen by Goldline Research as one of the **Ten Most Dependable Wealth Managers of the NorthEast**

Key Points

- ◆ Investors pouring 8 times more money into Junk bonds than Gov't bonds YTD
- ◆ Investors putting money into Emerging Markets while taking money out of Foreign Equities

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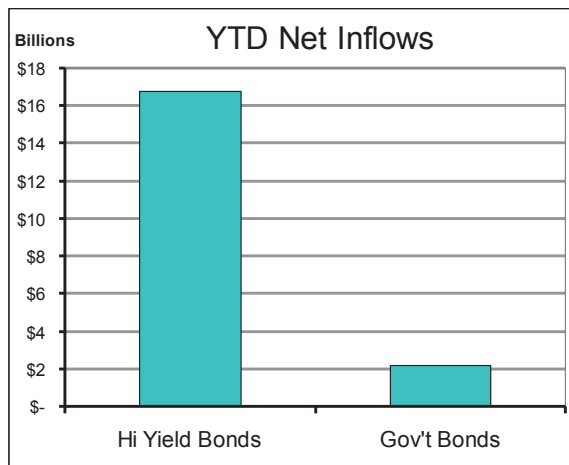
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yielding investments and have ignored risks in favor of perceived higher returns. But instead of stepping up to the just next level of investment risk, Government bonds, they leapfrogged into the highest risk category putting \$16.00 into Junk Bond funds for every \$2.00 they put into Government bond funds, according to The Investment Company Institute.



As of June, according to Lipper, investors have taken \$167 billion out of the safety of money markets YTD. \$130 billion went into bond funds. If rates rise as we expect, this is an unwise investment. In a move that shows investor appetite for risk hasn't subsided, \$18 billion came out of International Equity funds according to Lipper, YTD. ICI shows that Emerging Markets funds had net inflows of about \$5.4 billion over the same time period. Investors took money out

of international stocks, but piled into higher risk Emerging Markets.

*"So you run and you run to catch up with the sun but it's sinking,
Racing around to come up behind you again.
The sun is the same in a relative way but you're older,
Shorter of breath and one day closer to death."*

Risk management should be the focus

We believe that investors are setting themselves up for another hard fall. At a time when they should be reducing risk and finding ways of taking advantage of the poor economic conditions, they are instead boldly getting more aggressive.

Our research shows that the bond market is especially risky with rates as low as they are today. The stock market is likely to have corrections of 30% or more. Investors could be setting themselves up for a repeat of last year.

But there are great opportunities for investors, if they are willing to have patience and discipline. They also have to be willing to look at the investing world differently. They need to forget the old ways of doing things. At Cornerstone, we have been managing money differently for years.

Time *is* running out for those that follow the mainstream way of investing. Don't let it run out for you before you make a change.

All lines in italics are from music by Pink Floyd

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