

IN-SIGHT[©]

TIMELY OBSERVATIONS AND HOW THEY MAY IMPACT YOU



MASCAGNI & COMPANY, INC.
Providing financial planning for financial changes.

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PLANNING PERSPECTIVES—



With summer comes youth ball games, vacations, and travel. As far as our office in the summer, we have opportunities to sharpen our skills (continuing education) and meet with investment managers. So as I write this I am away attending an investment due diligence conference in Los Angeles.

While out here, my wife and I just toured the Ronald Reagan Library in Simi Valley. Wow... my heart is still full from seeing this. Memories flowed as I was reminded how blessed America was to have had Ronald Reagan as a president. My oldest son, a previous college soccer player, would label Reagan an "all-star." I would go a step further. He was the MVP—and while touring we wondered what Ronald Reagan, probably the greatest President of our lifetimes, would say to solve the problems we face today.

There's one thing for sure, President Reagan would offer encouraging words that would lift our spirits, refocus, and "push us on" to accomplish our best. For times like these he might offer one of his favorite quotes, "*Don't let anyone tell you that America's best days are behind her—We've seen it triumph too often in our lives to stop believing in it now*". Oh, so very true!

Several of you have asked "*Are things getting better?*" Well actually it appears that economic indicators are turning more positive, and the stock market is signaling that turn. For instance, the real estate market appears to have bottomed in many areas, the rate of job losses shows some sign of reduction (Brian discusses below), consumer confidence has improved, credit is thawing, and the stock market is up significantly from the bottom in March (and positive for 2009). Keep in mind almost no stimulus dollars have yet been spent to heal the "sick patient." How about that! Does that say something about "government spending" as a strategy to cure a recession? Additionally, people in our region of the country are telling me they feel better about their situation (jobs and economy), are beginning to save more and pay down debt, and aren't quite as fearful as back in March. Surprisingly many are still embracing a long-term investment horizon. However many are unsure and at least concerned what may come out of the politicians in Washington.

As far as what you hear, keep in mind when CNN and other news services report, the information can already be on "the street," motivated by a self-interest position, or not include all the facts to make a good decision. Many of you have told us how you have felt better by just turning off the news. Additionally I hope you know I am very sensitive to the possibilities that our industry can be self-serving at times in its comments. After 21 years in this profession, I know you learn through the experiences and "hard knocks" of life.

Please know we are listening, learning, asking questions, and open to change if it's good for you. Though we aren't through the woods yet, we will continue to sharpen our skills and commit to offering you the best advice you need to make good decisions. Already this year, and in the days ahead, you will hear from us some new ideas and strategies to help you "push on" to get to where you need to be. In the meantime please know your future success is most important to our satisfaction and our sleep at night. And remember, we want to hear from you if we can help you in any way or if someone you know who needs our help.

ECONOMIC PERSPECTIVES—



Voltaire said, "The secret of being a bore is to tell everything." Although we'd like to tell you everything we know about the markets, our goal each month is to highlight the things that we believe are important and interesting. Clients have asked us about the following:

Why do I keep hearing about China and Russia selling U.S. treasuries?

There has been a lot of speculation about what China and Russia will do with their reserves. The "sky is falling" crowd thinks the countries will sell their holdings, putting a lot of downward pressure on the dollar and upward pressure on Treasury rates. The "optimists" say that this is nothing but a

rumor, and both China and Russia will continue buying U.S. treasuries as they always have. We happen to fall in the middle. We think they will probably always hold some amount of U.S. treasuries as a portion of their reserves; however, it's very likely

- What do rumors regarding China and Russia mean for us?
- The consumer is saving, not spending. What does this mean for the economy?
- Revisiting the labor market.

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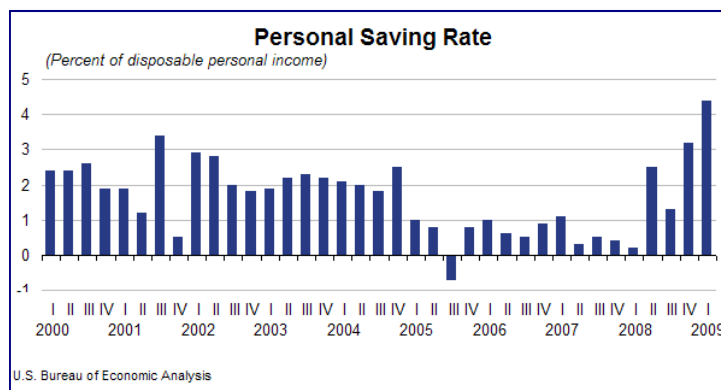
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they could buy less and less. So if China and Russia are not going to be buying as much, then who will? Some of the slack could be taken up by the U.S. consumer. The U.S. consumer is currently in “saving mode,” indicated by personal savings as a percentage of disposable income, now at 5.7% (Source: Bureau of Economic Analysis, April 2009). *More on this below...* So, with the U.S. Government spending more and more money, we will need someone to lend to us in the future. Who would ever have thought we might need China and Russia?



The Dave Ramsey idea of spending less than you make seems to be spreading across the country at an astounding pace (currently 5.7%; see above). I remember hearing wailing and gnashing of teeth when the savings rate went negative in the third quarter of 2005. The same economists are again upset because the U.S. consumer is now saving “too much.” These economists would rather see the consumer take that money and spend it. Like I said in the last newsletter, the U.S. consumer represents 70% of our Gross Domestic Product (Source: Hoover Institution). The less the consumer is spending, the harder it is for GDP to grow. Will this trend of higher savings be a cultural shift? Will we get back to the 10% levels we saw in the 1950’s or will we go back down to the 1-2% savings range? This is a question that we can’t answer, but we are constantly keeping an eye on the trends.

Last month we talked about the Labor Market. I wanted to update you again on initial jobless claims. We said that we will be more confident that the recession is closer to an end once initial jobless claims drop below 550,000. Last month, the 4-week moving average was 631,250. Now the average is lower yet again at 621,750 (Source: NBER 6/11/09). We still have a long way to go, but we like the direction this indicator is moving. One large unknown, however, is how much the automobile industry layoffs will affect jobless claims. Again, we will continue to keep you posted.

Brian

PERSONAL PERSPECTIVES—



The past several weeks I have been back on the ‘track,’ trying to get into a little better shape this summer. As I’ve been running each week, one thing I’ve become acutely aware of is how much *harder* it is this go-around. In years past, my body has responded well after a couple of weeks working out. However, I’m realizing that the older I get, the more difficult (and painful) it is to get back into good physical shape. Some of you may be able to relate!

This got me to thinking, and there is a very real parallel to this experience and our finances. That is... the older we become, the harder it is to get into good ‘financial shape’ for retirement. In other words, we don’t have as much time left to save – often known in our industry as “*the cost of delay.*” If we wait too long to save, or even take on too much risk, we can find the task has become very difficult (and painful), and our original game plan has been damaged. So, these recent ‘running experiences’ have re-emphasized a few life lessons for me:

Create a Plan. Check out [Proverbs 21:5](#). This has been taped on my computer monitor since 1996, when I started working here. There is a good reason to have a plan in place. Simply “starting” and “persevering” are great disciplines, but they need purpose. I must continually ask myself “*What are our goals?*” and “*Are we still on track?*”

Start today. The longer I delay, the harder the task becomes. Even if I’m forced to take ‘baby steps,’ at least I’ve made a start, which often is the most difficult decision to make. Some of the best financial advice that I received when I graduated college was to **start** saving every month. If I remember correctly, all I could swing was a mere \$25/month at the time!

Don’t stop. In hindsight it’s painfully clear that if I had only *continued* to exercise after my twenties, my current struggles might not exist! Doing something is often better than doing nothing at all (just be sure it’s productive). Also, be creative *and* keep it interesting. I have to do this because persevering is the most difficult task for me. In my running I simply try to periodically adjust my routes, time and length—the changes promote growth and also are breath of fresh air!

Wes