SCANNELL
WEALTH MANAGEMENT GROUP

SPRING/SUMMER 2009

VISION

To enhance our clients' quality of life.

MISSION

Our mission is to plan for our clients' future, so they can enjoy the present. We accomplish our mission when our experienced and Professional Team gives clients proactive, personalized service and communication. This process is designed to ensure that our clients' wealth plans keep pace with life changes.

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YOUR *Wealth* MATTERS

COMPLIMENTS OF TIMOTHY M. SCANNELL, CPA, CFP®

INVESTMENTS SHOULD BE GUIDED BY REASON, NOT FEAR

By Tim Scannell, CPA, CFP®
President, Scannell Wealth Management Group

Trends in stock market trades often reflect fear and greed, and market developments over the last 18 months clearly indicate unease and anxiety as driving factors in investment decision-making. Yes, the stock market's recent bounce is certainly a welcome event, and there is plenty of money on the sidelines that could drive stocks higher in the short run. However, investors need to balance the near-term market performance with the fundamental problems that still plague the economy and the stock market. For example:

- Bank stocks have cratered on fears of insolvency and government takeovers. And while financial stocks have bounced sharply in recent weeks, these shares still trade well off previous levels. Clearly, the group is not out of the woods, with investment sentiment still quite fragile.
- Transportation and other cyclical stocks have slumped due to fears that an unprecedented decline in global industrial activity could worsen.
- Consumer-product stocks have suffered, impaired by fears that overseas economies no longer represent avenues for growth.

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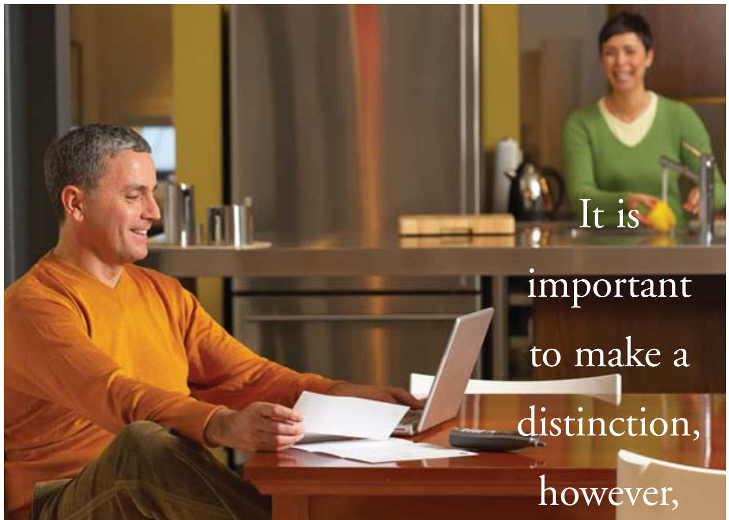

Beyond sector-specific fears, investors are worried that government bailouts are making things worse, that the nation's process for dealing with failed companies is ineffective. Unless companies like General Motors and Citigroup can fail and be reorganized, some argue, the natural process of economic recovery will be thwarted. Both U.S. and foreign investors are worried that the U.S. government leaders are making things up as they go along, putting out fires without getting to the root cause of the economy's problems.

And despite the recent market advance, U.S. consumers, hurt by huge declines in home prices and share prices, are relatively pessimistic. In February, the Conference Board Consumer Confidence Index reached its lowest level since its 1967 inception, with consumers citing a rapidly deteriorating job market. Consumer spending has slumped, with cutbacks in everything from luxury items to basic household goods.

In short, the economic news is still pretty bleak these days.

It is important to make a distinction, however, between the economy and the stock market. There's no question that economic times are tough. But that doesn't necessarily mean that stocks have to decline. Indeed, the economic and corporate news does not need to be good for stocks to advance; the trends need to be less severe than what is reflected in stock prices. And it appears that a good portion of today's bad news is already reflected in stock prices. Indeed, the Dow Jones Industrial Average had fallen more than 50% from its October 2007 peak, returning to levels not seen since 1997.

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To be sure, despite the stock market's recent positive price action, it would be premature to say that *all* the bad news has been discounted. The fact that the Dow Jones Industrial and Transportation Averages, after rallying strongly in December, could not avoid reversing course to fall below the November 20 lows, suggests that any rallies – including the current one – have to be viewed with a skeptic's eye.

For that reason, we believe the best course of action for investors is to acknowledge both the attractive long-term values available in stocks as well as the near-term risk of further market volatility. To that end, we recommend investors maintain a reasonably defensive posture.

SCANNELL
WEALTH MANAGEMENT GROUP

Tim Scannell, CPA, CFP®
PRESIDENT
tscannell@scannellwealth.com
219.531.4941 x2

Julie Rusboldt, CPA
CHIEF FINANCIAL OFFICER
jrusboldt@scannellwealth.com
219.531.4941 x5

Cheryl Gebhardt
MARKETING DIRECTOR
cgebhardt@scannellwealth.com
219.531.4941 x4

Jennifer Reed
TEAM LEADER
jreed@scannellwealth.com
219.531.4941 x3

PJ Ciotola
ASSOCIATE WEALTH ADVISOR
pciotola@scannellwealth.com
219.531.4941 x7

Wes Barnes
ASSOCIATE WEALTH ADVISOR
wbarnes@scannellwealth.com
219.531.4941 x6

225 Aberdeen Drive, Suite A • Valparaiso, IN 46385
219.531.4941 219.477.6645 FAX

DYNAMICS OF ENERGY USAGE IS CHANGING

The world of energy is undergoing dramatic change.

Throughout the 1990s, crude oil prices in the United States averaged $20 a barrel, with highs of $35 during the 1990-91 Persian Gulf War and lows of $11 after the 1998 emerging market crises, according to the Energy Information Administration. Since then, petroleum prices have skyrocketed.

"Oil, the Economy and the Stock Market," a white paper by Joseph H. Davis, Ph.D., and Roger Aliaga-Diaz, Ph.D., of The Vanguard Group, cites past oil price increases caused by oil supply disruptions centered in the Middle East. Notable oil supply shocks include the 1956 Suez Crises, 1973 Arab Israeli War, the beginning of the Iranian Revolution in 1978, onset of the Iran-Iraq War in 1980, and the Persian Gulf War.

Today, some analysts believe the dramatic rise in oil prices from $20 a barrel in 2001 to more than $140 in 2008 (before its recent dramatic drop back below $100) results primarily from the first global demand shock.

Throughout this decade, the global economy has expanded robustly and commodity demand has surged. China and India have more than doubled their combined share of oil consumption since 1990, and many experts anticipate that China's demand for oil will double again in the next two decades.

Economists have long observed that oil price shocks tend to precede U.S. recessions as consumer discretionary spending declines and further investment plans stall.

According to the study, the U.S. economy would have avoided five out of the past six recessions had oil prices remained unchanged.

Many emerging economies employ subsidies that keep domestic fuel prices far below the world price. As a result, these countries consume far more fuel than they would otherwise. By one estimate, countries with fuel subsidies accounted for virtually the entire increase in worldwide oil consumption last year. "Without this artificial demand stimulus, world oil prices would have been significantly lower," says economist Robert H. Frank at Cornell University's Johnson School of Management. With a $2 per gallon subsidy in effect, gasoline sold in the world market at $4 would sell for $2. "The problem is that when the price of a good is below its cost, people use it wastefully. The external costs like dirtier air and increased congestion are hard to measure, but are nonetheless substantial," says Frank.

The good news is that the world, including poorer, rapidly developing countries, is taking more of an interest in renewable energy sources. A recent article in the *Economist*, titled "The Power and the Glory," reported that China has a large wind-generation capacity which is expected to grow by two-thirds this year, and that the country is the world's second largest manufacturer of solar panels. Brazil has the second largest bio-fuel industry, which already provides 40% of the fuel consumed by cars there. South Africa is leading the effort to develop a new class of safe and simple nuclear reactors.

The world of energy is changing.

PANICKY INVESTORS
HURT THEMSELVES IN THE LONG RUN

The sun will rise tomorrow.

A recent article on Bloomberg.com pointed out that hedge funds are aggravating the worst market decline in 50 years as they dump assets to meet investor redemptions and keep lenders at bay. The story quotes Mohamed El-Erian, Co-Chief Executive Officer of Pacific Investments, as telling CNBC that, "Even the really good hedge funds are being forced to sell."

The good news is... someone is buying.

On the other side of the trade, from all those people liquidating their portfolios, are other investors who are happy to buy. Some are market timers, others see this as a long-term buying opportunity.

George Muzea, author of *The Vital Few vs. Trivial Many*, looks at the markets from a different perspective than most. Here is how he views the current market environment:

- The Vital Few (smart money): Insiders are not buying as aggressively as they did in the 1974, 1987, and 2002-2003 bottoms. However, there is almost no meaningful selling, always a sign of value.
- The Trivial Many (reverse indicators): The moods of the media, friends, and acquaintances are very bearish. The American Association of Individual Investors is seeing more bears than it has in 20 years. To Muzea, these reverse indicators keep him locked in the full buy mode.

Increased nervousness has caused many investors to contemplate getting out now.

"The way investors do violence to their financial security is to establish an investment position outside of their actual tolerance for risk, believing they can manage the risk by panicking to sell if the market drops lower. As prices drop, poor investors set an ultimatum for the market by saying, 'If this thing loses one more dime, I'm out,'" says portfolio manager John P. Hussman. "Invariably, the thing will lose that dime and the investor will get out near the bottom, having taken most of the losses, but abandoning any prospect for recovery and subsequent growth," he adds.

Waiting on a bear market in cash sounds like a great idea ... but, is it? A study by consulting firm SEI in 2002 showed what happened when investors cashed out during a bear market. Those who waited until the market recovered before getting back in, jumped in too late and lost out on double-digit gains. Investors who held on throughout the last 12 bear markets gained on average 32.5% in the following first year and recovered in 1.5 years. Investors who jumped in one week later gained 24.3% and recovered in 2.5 years. Finally, if you jumped in three months too late, the return was 14.8%, and took three years to recover.

Even this down market will end – and, probably, when we least expect it.

Perhaps a more constructive way to approach recent concerns is to consider the importance of portfolio rebalancing. Consider a study by JPMorgan Asset Management. Assuming a hypothetical portfolio of 50% stocks/50% bonds, using the Lehman Aggregate Bond Index (Fixed Income) and the S&P 500 (Equities), an allocation on October 9, 2007 to October 23, 2008, has seen the weighting of stocks decline to only 36%, potentially leaving investors dramatically underweighted in stocks. In time, this could hurt investors who don't rebalance, as their portfolio might not be in a position to take advantage of an eventual rebound.

In bad times, demand for risky assets falls. So, the compensation for taking this risk needs to rise to attract investors. Lower share price relative to fundamentals just means expected returns may be higher.

Anxiety over the market downturn is understandable. But, we've had crises before. The world moves on and risk appetites have a tendency to reassert themselves.

The sun will rise tomorrow.

Personal Notes

FROM YOUR WEALTH TEAM

Wes Barnes
Associate Wealth Advisor

It's been great getting to know and working with the clients here. Since joining the Team, I have earned my Series 7 and 66 registrations and combined Life/Health insurance license. Currently, I am taking courses in investments and insurance planning at DePaul University in Chicago. Aside from continuing my education, I am looking forward to the warm weather for the summer ahead!

Cheryl Gebhardt
Marketing Director

I have been busy increasing communications to our clients about market conditions and the economic environment – check out our new podcast page at *www.scannellwealth.com* for a quarterly update on the state of the market by Chuck Carlson, CEO, Horizon Investment Services, a nationally recognized firm.

Julie Rusboldt, CPA
Chief Financial Officer

It's been a long winter and while we've really enjoyed our son Corey's basketball season, we're anxious for spring and baseball season to begin. Our son Tyler is playing baseball at Chesterton HS. He and Corey will continue travel ball well into the summer filling our days at the ballpark!

PJ Ciotola
Associate Wealth Advisor

It's been another fast year with the group, and I am thankful for the opportunities and experiences provided here. I don't think I could have survived the markets this year without the resources and support of our Team. I continue to take classes that will help me better serve our clients and the community. A personal goal of mine is to participate in the Valpo Tri this year - so maybe I'll see you there!

Jennifer Reed
Team Leader

As the school year winds down, we're looking forward to the return of summer and the warmer temperatures! We'll be very busy watching Spencer play soccer and baseball this summer. We're also planning a trip to San Diego in June.

Tim Scannell, CPA, CFP®
President

Nancy and I are gearing up for Katie's graduation from Marquette University and Brendan's graduation from Valparaiso High School next month. Brendan has offers to attend Indiana University (to be with his sister Bethy), New York University and Northwestern. I planned for college expenses, knowing that we would have 40 semesters to pay for – but WOW is it painful to write those checks!

225 Aberdeen Dr., Suite A
Valparaiso, IN 46385

219.531.4941
219.477.6645 FAX

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PODCASTS DEBUT AT SWMG

by Cheryl Gebhardt

A new dimension in communications - Podcasting – is a result of our desire to maintain the best possible relationship with our clients. And a very important part of that relationship has been increased communication about the state of the market.

Our podcasts provide quarterly information on the stock market and the economy and are available by logging on to our web site at *www.scannellwealth.com* and clicking on the podcast page.

Chuck Carlson, CEO of Horizon Investment Services, a money management concern provides our state of the market commentary. Chuck is a Chartered Financial Analyst (CFA) who holds an undergraduate degree in Journalism from Northwestern University (1982) and an MBA from the University of Chicago (1993). He is the author of eight books, including the best-selling **Eight Steps to Seven Figures** (Doubleday), **Individual Investor Revolution** (McGraw-Hill), and **No-Load Stocks** (McGraw-Hill). His comments appear in such newspapers and magazines as **The Wall Street Journal**, **The New York Times**, **USA Today**, **Newsweek**, **U.S. News & World Report**, **The Washington Post**, **Money**, **Business Week**, **Forbes**, **Barron's**, and **Kiplinger's Personal Finance**. Chuck also appears frequently on television and radio shows, including **CNBC**, **CNN**, NBC's **Today Show**, and **WBBM Radio in Chicago**. He lives in Valparaiso, Indiana.

We are excited about podcasting and hope you are too. If you'd like specific topics to be addressed in the future, please email Cheryl Gebhardt at: *cgebhardt@scannellwealth.com.*