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Look Back 2nd Quarter 2012

In democracies, nothing is more great or brilliant than commerce: It attracts the attention of the public and fills the imagination of the multitude; all passions of energy are directed towards it – Alexis de Tocqueville (Author, *Democracy In America* 1840, 1805-1859)

If what de Tocqueville says about commerce is true (and I do believe that it is true), continued slow growth in the US (as well as in China and India) will continue to strain the psyche and the living standard of people around the world. A shortage of food, water and housing, will inevitably lead to conflict for these scarce resources. We need real solutions and not just temporary patchwork resulting from political gridlock. Our politicians need to stop worrying about getting reelected and address the problems head-on while we still have options.

Continued uncertainty with respect to the upcoming US Presidential election and the "fiscal cliff" has greatly affected business growth and confidence. The "fiscal cliff" refers to the looming budget showdown at the end of this year when the Bush era tax cuts are scheduled to end. If Congress takes no action, many economists feel that the US economy will likely be driven into a recession. Do you remember the budget stalemate fight of last August and how it affected the stock market? It could very likely happen again but worse this time. Neither political party seems willing to work with the other fearing one-upmanship going into the November elections. I have digressed for a moment from the Look Back but it is a frustrating and serious situation for the country; our economic futures will be affected if the political standoffs are not resolved. Enough said for the moment, back to the second quarter stock market review.

After a very strong rally in the first quarter, US stocks gave back some of their gains with pull backs in a volatile second quarter. The DOW posted 22 days of triple-digit moves in the April, May, and June time frame compared to only six triple-digit moves in the first quarter of 2012. The bulk of the losses came in May as the equity markets moved lower due to the turmoil in the Eurozone. Stocks bottomed in early June but then produced solid gains as they headed toward the end of month. The gains, however, did not offset the losses in May. The good news is that most markets are still up for the first half of 2012.

The second quarter box scores for the major markets in the US reflect the flight from risk that prevailed during the last three months. The DOW fell -2.5% during the second quarter but is still up +5.4% year-to-date. The widely quoted S&P 500 index fell a little further at -3.3% but is up +8.3% for the year. And the tech heavy NASDAQ saw the biggest drop at -5.1% but is still sporting a +12.7% gain since January (Source: Wall Street Journal 7-2-2012). Following the US lead, International markets were down an average -7.1% during the quarter (Source: Bloomberg).

With respect to sectors, classic defensive stocks, such as telecom (+12.6%) and utilities (+5.5%) preformed the best in the quarter while technology (-7.0) and financials (-7.3%) did the worst. Within the corporate fixed income sector, both corporate (+2.4) and high yield (+1.8) bonds did well (Source: Bloomberg)

The year is only half over and we should expect the unexpected due to the influences of slowing global growth and the fiscal cliff mentioned earlier. Presidential election years have a tendency to produce solid gains so there is still room for optimism in 2012. I do think 2013 will provide an even bigger challenge than this year when elections are not taking place. We shall see.

In a recent meeting, a client mentioned he was unaware that the money managed capital preservation portfolio was available for both retirement and non-retirement accounts. To help better understand the choices in the program, I am including an insert with this newsletter briefly describing the options. All choices are available for retirement accounts. Only capital preservation and growth are currently available for non-retirement accounts. If you have any questions, please give me a call.

This month's guest columnist is Doug Cadaret. Doug is a mortgage specialist and a member of my alumni networking group from Detroit/Novi Catholic Central High School. Hope you enjoy his article on refinancing.

Take good care!!!

A Great Time to Refinance

By: Doug Cadaret

In case you didn't hear -mortgage rates hit an all-time low last year. The popular 30 year fixed-rate mortgage fell to 3.625% in early June and isn't showing any signs of climbing anytime soon!

However, mortgage rates remain at historically low levels, making it a prime time to refinance, assuming you haven't done so !ready. Of course it only makes sense to refinance if you'll actually save a significant amount of money, but determining that takes a little bit of legwork. First, you'll need to gather some information - including your current interest rate, the remaining tem of your mortgage, the term on your proposed refinance loan, and estimated closing costs.

Let's look at an example:

- Loan amount: $250,000
- Current mortgage:.5/1 ARM
- Current mortgage rate, 6.2%
- Remaining term. 240 months
- Refinance mortgage. 30-ycar fixed at 3.625%

Put yourself in the scenario above and your current monthly mortgage payment would be $1,539.29. Assuming you refinanced into the 30-year fixed mortgage at 3.625%, your monthly payment would fall to 1.139.42. That's quite a reasonable savings of roughly $400.Not bad, right?

Considering those numbers, you also have to factor in income tax implications and closing costs, unless it's a no cost refi. Let's assume you pay 1 percent in closing costs equaling $2500. Using simple math, without the impact of tax and remaining term, it would take about 6 months of making lower payments to recoup that. So you wouldn't see much of a benefit until then, but the longer you stay with the refinanced mortgage, the more you will save.

A few additional considerations to ensure refinancing is the option for you:

Our example included a 5/1 Adjustable-Rate Mortgage, meaning it's fixed for five years and then adjusts annually for another 25 years, thereafter. If mortgage rates are expected to rise over time, that rate could adjust much higher than the current 6.25%, making it even more sensible to refinance into a lower fixed-rate mortgage.

You may also want to look at shortening the 'term' of the loan for greater savings and lower rates. Many of the applicants in today's market are taking advantage of the market by shaving off 5, 10 and even 20 years off their mortgage term -providing them with substantial savings over their current mortgage.

So regardless of your age and loan balance, as long as you plan on staying in the home for at least 1 year, the option to refinance makes total sense.

Also note that the mortgage rates you see advertised on line and on TV may not be the actual rates you receive due to the complexities of mortgage underwriting. That is why it's imperative to prepare yourself prior to applying for mortgage, now more than ever because mortgage lenders have made qualifying for a mortgage much more difficult. Working with an experienced mortgage professional can help you find and make the best possible choice to fit your needs. Whether the mortgage is conventional, adjustable rate, VA, FHA, reverse or a government hybrid - we are here to guide you.

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