Dominion Wealth Management

January 2012 Newsletter

The Debt

From the desk of Matt Brennan

Happy New Year! We hope you and yours had a wonderful holiday season. Getting back to it, we'd like to ease into this Newsletter with a quick, little exercise.

Here is a brief synopsis of our country's balance sheet as we begin the new year:

United States Tax Revenues: $2,170,000,000,000
Federal Budget: $3,820,000,000,000
New Debt: $1,650,000,000,000
National Debt: $14,271,000,000,000
Approved Budget Cuts: $38,500,000,000

Take a moment to digest all those zero's. To help put things in perspective, lets translate these numbers to reflect the personal balance sheet of a family of four putting together a household budget.

We have an annual family income of $21,700
The family spent $38,200
They also managed to wrack up interest charges on credit card balances of $16,500
The amount they have outstanding on these credit cards totals $142,710
After a lot of deliberation and arguing, the family has committed to cutting their budget this year by a grand total $385

Hopefully that punch-line managed to elicit a chuckle and not absolute nausea. Such is the fiscal situation our country enters the new year with. As you can no doubt tell, we remain infinitely bearish at the present moment about the prospects of any sort of true economic recovery. We continue to digest daily research supporting the case for continued sovereign debt issues plaguing the European Union, slowing growth prospects in China, and a pace of growth here in the US that is simply not fast enough to address the sluggish housing market and to fix unemployment. All of that being said, we do not discount the ability of global governments to continue to try and fight these problems with stimulus piled on top of stimulus… with a side of stimulus. While these actions may have the short-term action of buoying market prices, at the end of the day we feel they only serve to shorten business cycles and to increase market volatility. Painful global deleveraging and strict austerity measures will eventually be the only tools left in the toolbox, and by then it may be too late.

This month, we want to review some of the recent tactical actions we've taken across portfolios. Our primary objective this month is to diversify the majority of our bond holdings. To that end, we are developing target allocations that include investment in the following types of bonds and bond funds.

Ten Year Treasury Bonds – Yields on 10 year bonds continue to test new lows. We do believe we've yet to see the bottom (recall, bond prices rise when yields fall). We also witnessed a very odd phenomenon this past August. US Debt was downgraded by Standard & Poors from AAA on a Friday evening. That Monday morning everybody raced to buy the thing that had just been downgraded. Yields fell and prices rose. We believe that continued volatility will lead to continued "flights to quality" with investors flocking to treasuries for security.

Municipal Bonds – It was widely anticipated that 2011 would be a year of widespread municipal defaults. Instead, we witnessed state and local governments taking proactive steps to cut spending and sure up their financials. We continue to see good yields in the Municipal Bond space and are selecting positions that we believe are of good quality.

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Total Return / Core Income / Intermediate Bonds – Entering 2012 we have the Federal Reserve Board's mandate that they intend to hold interest rates low until 2013 at the earliest. Given this, and additional research suggesting modest upward pressure on rates in general, we are comfortable moving further out on the yield curve to capture a better rate..

Short-Term / Low Duration Bonds – These continue to be an integral part of our "Dry Powder" plan. In short, we want something that will do a good job of preserving principal while providing a nominal yield. They are also fairly liquid and will provide us with "Dry Powder" or "Cash to Buy" when/if we see a dramatic pullback in equities as part of a global recession or slowdown.

That is a brief overview of the steps we are taking to opportunistically reallocate funds across all of our portfolios. We look forward to discussing specific actions taken in your own portfolio during your regularly scheduled progress meetings. As always, we want you to feel confident and secure knowing that you have a plan in place and that we are monitoring things accordingly.

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