

Financial *notes*

INSIGHTS TO ORCHESTRATE FINANCIAL INDEPENDENCE

FROM THE OFFICE OF DR. SCOTT STRATTON, CERTIFIED FINANCIAL PLANNER (TM)

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Dear Scott,

The stock market held up nicely in April, continuing to build on the March rally. Many companies reported their first quarter results in April, and as expected, earnings were generally weak. While there have been a few surprises, the important thing was that results were largely no worse than expected. With the economy in recession, we are watching the market closely to see if it forms a base here around 850 on the S&P 500 and 8000 on the Dow.

Why Average isn't Normal

Revisiting the concept of historical returns in the stock market

We've all heard the statistic that the stock market has historically returned an average of 9% to 10% a year. It seems hard to believe, given the market's disappointing recent performance, but the annualized return of the S&P 500 index since 1926 is still 9.64%.



Although that is the "average" return, how many years were average? Here is a breakdown of the calendar year results of the S&P 500 index from 1926 through 2008:

| <u>RETURN</u> | <u>Number of YEARS</u> |
|---------------|------------------------|
| >50% | 2 |
| 40% - 50% | 3 |
| 30% - 40% | 13 |
| 20% - 30% | 13 |
| 10% - 20% | 15 |
| 0% - 10% | 13 |
| 0% - neg 10% | 13 |
| neg 10% - 20% | 5 |
| neg 20% - 30% | 3 |
| <neg 30% | 3 |



The best compliment you can give me is the referral of a friend or family member!

Scott Stratton, CFP(R)
 phone: 214-276-0808
 email: sstratton@gswealth.net

THIS MONTH, SCOTT IS...

My brass quintet, the Perennial Brass, is giving a recital on Sunday May 17 at 3pm at Grace Lutheran Church, 1200 E. Hebron Parkway in Carrollton. It is free and open to the public. We'll be playing some of our favorite pieces across

During these 83 years, the S&P 500 had 59 years in which the market was up and 24 years that were down. Four of these down years have occurred in the past decade (2000, 2001, 2002, and 2008), so investors are keenly aware of the pain the market can inflict in a downturn. It feels like we will never get back to that 9% "average" performance.

four centuries of music. I hope you can attend!



What is important for investors to realize is that relatively few years have been "average". Only 13 years of the past 83 have had a return between zero and 10%. Historically, a big drop in one year is often followed by significant gains in the following year. After a 35% decline in 1937, 1938 saw an increase of 31%. 1974's drop of 26% was followed by a 37% gain in 1975. A 22% slump in 2002 preceeded a 28% surge in 2003.

Unfortunately, many investors sell out at a bottom, and miss subsequent rallies. I have no idea if 2009 will be up or down, but following a 37% loss in 2008, I think the market may have priced in many of the problems in the economy. None of us has an 83-year time horizon for our portfolios, but for a long-term investor, I believe that there will be a gradual reversion towards the mean.

The toughest part of being an investor can be to stay patient and stick with with your plan during the lean years. You should diversify, manage risk, and monitor your investments closely, but still remember that stock market returns have always varied widely on a year-to-year basis.

Source of data: ICMA-RC and moneychimp.com

Property Tax Time

For most property owners, May 31 is the deadline to protest your property tax assessment. Even though real estate prices are down in many neighborhoods, we have seen outsized increases in some clients' home tax appraisals. If you have not protested your appraisal in recent years, it may be worth a look. For information on the protest process, visit your county website:

Dallas County: DCAD.org Collin County: CollinCAD.org
Tarrant County: TAD.org Denton County: DentonCAD.org

Covered Calls

Many investors hear "options" and assume that it must be a high-risk strategy. While some options strategies are risky, there is a more



conservative strategy which allows buy and hold investors to generate additional income from their holdings. It's called a Covered Call.

A call is an option which gives the holder the right to buy a stock (or ETF) at a certain price by a certain date. In every option contract, there is one investor who is buying the option and one who is selling the option. In a Covered Call, you are *selling* an option to another investor to give them the right to buy shares that you own in your account. You get paid a premium upfront for selling the call, regardless of whether the call gets exercised or not.

For a thorough description of the Covered Call Strategy, please visit the website of the [Options Industry Council](#).

We have increased our use of covered calls in 2009, because high volatility has increased the options premiums we receive. The strategy is a trade-off where you cap your upside gains while generating cash from the option sale. It works best when you are bullish on a stock but believe there may be little price movement in the near term. What kind of call premiums could you receive from the stocks or ETFs in your portfolio? Call me at 214-276-0808 and we can look at current option prices for Covered Calls.

This information is provided for educational purposes only. Prior to trading options, your account must be approved for options, and you must receive a copy of the "Characteristics and Risks of Standardized Options" brochure.

*Happiness is not in the mere possession of money;
it lies in the joy of achievement, in the thrill of creative effort.*

FRANKLIN DELANO ROOSEVELT

As always, please feel free to call me anytime with any questions or concerns. I'm here to help! Thank you for your business.

Sincerely,

Scott Stratton, CFP(R)
16950 Dallas Parkway, suite 100
Dallas, TX 75248

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Milkie Ferguson Investments 800-945-3349 | 8750 N. Central Expressway, suite 1700 | Dallas | TX | 75231