

# GUARDIAN

A PUBLICATION FOR THE RETIREMENT PLAN CLIENTS OF PORTFOLIO STRATEGIES, INC.

## Market Commentary

by Bill Whatmough, Senior Portfolio Manager



Sixth century B.C. philosopher Lao Tzu once observed, "Those who have knowledge, don't predict. Those who predict, don't have knowledge." Yet, there are financial pundits out there trying to do just that, many times, unsuccessfully.

Instead of guessing what the market might do in the future, we feel it is important that we monitor your account daily and make adjustments according to what the market is actually doing. This is just one of the many benefits of having Portfolio Strategies manage your retirement account.

John Williamson  
Managing Partner

U.S. STOCKS CLOSED SHARPLY HIGHER for the month of March, wiping out small losses in most of the major market averages that were incurred in the first two months of the year. Gains for the month were strongest among the smaller capitalization stocks as the Russell 2000 Index led the way gaining almost 8.1% in March to close the first quarter up 8.8% for the year. The Nasdaq Composite also rose smartly, up 7.1% for the month bringing their first quarter gains to 5.8%. Larger cap issues lagged a bit as the S&P 500 Index gained 6.0% while the Blue Chip dominated Dow 30 Industrials tacked on 5.3% in March, bringing their first quarter gains to 5.3% and 4.8% respectively.

Improvements in the rate of change for a number of key economic indicators gave investors hope that the economy is slowly building a sustainable base. These indicators included new consumer goods orders, capacity utilization, employment, and hours worked. It is good to see the numbers positive, but there is a long way to go to replace the eight million plus jobs that have disappeared over the last three years. The markets were able to fight off some disappointing news as well. Other key indicators such as building permits, housing starts, consumer spending, consumer

confidence, and durable goods orders slowed from previous quarters. Since real estate and housing has been the main motivator of the economy for the past several years, it will be important to see improvement in this area. Likewise, since consumers drive the economy, if consumers don't become more confident soon, further expansion of the economy is unlikely.

Meanwhile, the Fed is likely to continue to try to decrease the money supply and begin to lift interest rates. The Fed tried to decrease the money supply in January and both the stock and bond markets tumbled. In

reaction to that, the Fed once again increased the money supply and markets once again surged in the month of March. Despite all of the Fed's talk about an exit strategy, it does not look like the Fed is confident enough of the economic underpinnings to get out of the stimulus business quite yet. ❁

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**Portfolio Strategies, Inc.**  
1724 West Union Avenue, Suite 200  
Tacoma, WA 98405  
(253) 383-1676 or (800) 959-2001  
Website: [www.portstrat.com](http://www.portstrat.com)

## A Guaranteed Gain

There are very few guarantees when it comes to investing, but the one you should never overlook is employer matching contributions to your retirement plan.

If your employer offers a matching contribution to your retirement plan, contribute whatever the employer is willing to match, even if it is only a percentage of your contribution and not a dollar for dollar match.

It would be difficult to find an investment today that offers a guaranteed 5, 10, 15, or 25% return comparable to a matching contribution, (assuming no early withdrawal penalties apply and the matched funds are fully vested). In addition, you receive a tax deduction on your contribution. When you withdraw the money, you'll have to pay income taxes, but you will have enjoyed the increased earning power in the meantime.

Matching contributions are most commonly found within 401(k), 403(b), and 457 plans. Even if your employer only makes a partial match up to a cap, take advantage of this opportunity. This is free money. There's no better investment you can make in terms of return or risk. If you need help setting up your contributions, talk to your plan administrator today. Make certain you understand how the plan works, your investment options, and what will happen if you should leave the company. 🍇

### What is the Federal Reserve System?

The Federal Reserve System, or "the Fed," is the central bank of the United States. It was created by Congress in 1913 to provide the nation with a safe, flexible, and stable monetary and financial system. Over the years, its role in banking and the economy has evolved and expanded to include:

- Conducting America's monetary policy
- Supervising and regulating banks and protecting consumers' credit rights
- Maintaining the stability of America's financial system
- Providing financial services to the U.S. Government, the public, financial institutions, and foreign financial institutions.

The Federal Reserve also makes loans to commercial banks and is authorized to issue the Federal Reserve notes that make up America's entire supply of paper money.

The Federal Reserve System is considered independent because its decisions do not require ratification by the President or anyone else in the executive branch of government. However, the Fed is subject to oversight by the U.S. Congress—it must work within the framework of the overall objectives of economic and financial policy established by the government. The Board of Governors of the Federal Reserve System is composed of seven members, who are appointed by the President of the United States and confirmed by the U.S. Senate. Ben Bernanke is currently serving as the Chairman of the Board of Governors. The Board oversees a network of twelve Federal Reserve Banks and their branches, which are located throughout the U.S. These banks carry out a variety of System functions, including operating a nationwide payments system, distributing the nation's currency and coin, supervising and regulating member banks and bank holdings companies, and serving as banker for the U.S. Treasury.

To learn more about the Federal Reserve System, go to [www.federalreserve.gov](http://www.federalreserve.gov).

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1724 West Union Avenue, Suite 200  
Tacoma, WA 98405

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