



November 24, 2009

D3 Business Update:

We are looking forward to seeing everyone who's planning to attend our Annual Client Appreciation Dinner on December 5th. As you all know, Nancy Lencioni left D3 to pursue other interests. We wish Nancy all the best, and thank her for her fine work at our firm. Patti Shipinski has joined us her replacement.

We have compiled the responses from the client satisfaction surveys that we sent out in August. Our average score was 9.5 out of 10. Some respondents wrote that we should be more communicative in turbulent times like last year. We had hoped that our newsletters, which have grown much longer in 2009, would help clients better understand the dramatic headlines generated by the financial media, which we found to be misleading at times. We work for you every day, and we encourage you to call us whenever have a question. We'll ask the clients attending the Annual Dinner for suggestions on other ways to communicate our thoughts on the markets.

D3 Market Comments:

Last month, we wrote a very long sermon that, despite the stock market rally, we were concerned about both the durability of the stock market rally and the recovering U.S. economy. Since then, the stock market tumbled a few percent over a two week period, then rallied to the highest levels of 2009. Many stock markets strategists have been forecasting a 5% to 10% downturn for months. However, each market decline, so far, has been short and shallow, as investors still holding cash have viewed these declines as a buying opportunity. What's unusual about this latest rally is that, while institutions are adding to their holdings of stocks, individual investors have been selling their stock mutual funds, and investing the cash in bond funds. We are slightly more hopeful about the prospects for growth in the U.S. economy, than we were last month. The economies in the U.S and many western European countries actually showed positive growth in the 3rd quarter, which has been attributed to massive government stimulus programs. The government's Home Buyer's Tax Credit is motivating Americans to buy homes, and the inventory of unsold homes is falling. Manufacturing indices continue to rise. Retail sales actually rose last month. Car sales did fall after the "Cash for Clunkers" program expired, but not as much as economists had expected. Many economies in Asia and Latin America are growing faster than the 2.8% U.S. growth rate, since those countries have much healthier banking systems than here in the United States. Central bankers in both the U.S. and Europe have publicly stated that they intend to keep interest rates artificially low, to ensure the sustainability of their recovering economies.

Corporate earnings results last month were rather mixed. Most companies reported an increase in profits from the previous quarter. However, much of the profit growth was generated from continued expense cuts and staff reductions. Few companies, except for the technology sector, reported a strong growth in sales. The lack of significant sales growth encourages the stock market pessimists' opinions that stocks can't rise much higher from these levels. They believe that companies have already cut costs as much as possible, and future earnings growth must be generated by rising sales. Regarding the employment situation, we wish we could be more optimistic about significant improvements going forward. Surveys of corporate hiring plans for 2010 indicate that companies are still very reluctant to hire new staff until

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there is more evidence of sustainable economic growth. We are watching for an increase in hiring from the temporary employment agencies, which is leading indicator of more permanent hiring.

The latest “hot” headline in the financial press is the falling value of the dollar against other currencies. There’s both good news and bad news with a falling dollar. A falling dollar lowers the price of goods produced here to customers outside of the U.S, which stimulates industrial production. However, products that retailers import from other countries get more expensive as the dollar falls, *except goods imported from China*. The Chinese government has not allowed the Chinese currency to appreciate relative to the dollar. As we wrote earlier, manufacturing indices here in the U.S. are rising as the economy recovers, and we expect them to rise next year as the falling dollar begins to stimulate exports.

The President just signed a bill extending the Homebuyer’s Tax Credit through June, 2010. The new legislation expands eligibility by allowing some *existing* homeowners to qualify for the credit. We’re including an article on the details of the new legislation, if you’re considering a purchase or sale of a residence in 2010.

Our Current Strategy:

We’ve reduced clients’ holdings of money market funds, investing the cash in short-term bond funds, and we recently added to clients’ holdings of an emerging market bond fund. However, we don’t expect significant trading activity for the remainder of the year. Yields have fallen back to historically low levels from earlier this year, to levels we think are a little too low. Because of the strength of the stock market rally, we generally think the U.S. and European stock markets represent fair value. Currently, there is a strong disagreement among the equity strategists whether emerging markets stocks are too expensive. We have read that several respected strategists believe that prices are still attractive, but our contacts at Fidelity have told us they think prices are a little too expensive.

Happy Holidays to everyone and, as always, thank you for your business!

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