



PMG Wealth Management, Inc.

1st Quarter Outlook

2010



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As we move into the New Year following up a successful and possibly surprising up year for 2009 what can we expect in 2010?

The themes for this year, in my opinion will be:

- Earnings will continue to improve for companies
- The possibility of a double dip recession vs. continued market recovery
- Government spending and the timing of inflation and rising interest rates
- Washington politics vs. Wall Street
- The possibility we are entering a longer period of debt reduction at the government and consumer level.
- Increased importance on looking globally

As companies continue to improve their bottom lines a shift to re-focusing on top line, revenue growth should fuel earnings throughout 2010 helping the market trend higher throughout the year. Much of this growth could come in the first half of the year thanks to the extra boost from last year's federal stimulus package. The temporary stimulus did keep us from disaster and improved GDP for the 4th quarter of 2009.

The possibility of a double dip recession will remain on the table based on political and economic debates. The larger issues to keep in mind include last years stimulus will lose steam since it was a temporary boost to the economy. Other headwinds include labor, housing, increasing savings rate, low demand for lending, politics, and the state budget issues. In total we have many factors that could lead to a double dip. However, for the time being and the first quarter the earnings of companies and overall recovery feel should continue. I am more concerned about the second half of the year.

Inflation should remain under control for the beginning of the year despite fears of the massive government spending. The Federal Reserve will need to continue to keep interest rates low to continue to give support to housing and lending throughout the country. Any Fed movement in rates this early in the recovery could be a huge shock to the system. After reviewing rate cycles of the past, one shouldn't expect to see the Federal Reserve move interest rates until after positive job growth has begun.

Already in January you've seen President Obama up regulation on the banks. They prove to be an easy target with public opinion yet this action gives Wall Street traders fits and can have some negative implications on the markets for the short term. This struggle could continue for some time as we slowly recover.

The market and economic collapse caught just about every American off guard. Now that things have improved a bit it has given everyone a chance to stand back to evaluate their current situation. One can evaluate their household situation including emergency savings, retirement, weekly cash flow, and credit card debt. If you work for a company or government entity on the financial side of things you are doing the same thing. Americans across the board had too much debt back in 2008 and everyone at the private and public levels are re-evaluating that situation today.

We have already seen personal savings rates pop to the positive side and near 5%. This is the highest savings rate in over twenty years. I suspect this rate will continue as the American consumer pays down debt. This process could take a few years for some to make any significant dent, but it will happen.

I've seen clients build up their emergency savings just in case they either lose a job or have a cash flow need in the future. Increasing ones savings is actually a very good thing, but it does hurt company profits in the shorter term. State governments and local municipalities are going through a similar process with respect to their budgets which means less spending down the road. Again, this is financially healthy and well over due for most. The reason I bring it up here though is the process of paying down debt will take some time and it will not be quick across the masses.

Over the past five to ten years investors have begun to talk about global investing and some have previously dipped their toe in the water with emerging markets. Well I think going forward the concept of looking for ideas outside the United States to diversify is full steam ahead. Partially due to our debt issues listed above and a struggling American consumer, but also due to the demographics of a quickly growing middle class in China and India.

This past year we've seen our U.S. based companies with a global presence recover very well, especially compared to companies that only sell products to the American consumer. Many money managers have increased their global exposure and I expect this trend will continue to help offset any struggles within our economy. Having a diversified, yet selective portfolio will be the key to navigating the volatile markets going forward.

To summarize, we are in for more volatility this year than last as we continue to debate many issues and strategies for our country. The economic recovery should continue in 2010 based on strong earnings growth and our favorable interest environment. The companies and investors who remain selective with a global strategy should continue to separate themselves from the pack.

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