Girard Partners
Nurturing your wealth for life

insights

April 2010

Economy 101

by Kevin Norris, President & CIO

Today's financial press sensationalizes everything, whether it's the economy, stock market, interest rates, or currencies, etc. In this newsletter, we'd like to help you understand the various terms commonly used when referring to the economy, provide you with a historical perspective of where the economy is today, and what the prevailing opinion is for future economic growth.

Definitions

Gross Domestic Product (GDP) – the basic measure of the country's overall economic output. It is the market value of all final goods and services made within the United States borders, and is positively correlated to the standard of living.

Recession – is a business cycle contraction or general slowdown in economic activity over a period of time. The National Bureau of Economic Research (NBER) is a private group of leading economists charged with dating the start and end of economic downturns. The NBER defines an economic contraction as at least two consecutive quarters of negative GDP growth.

Depression – in economic terms, a depression is a sustained, long-term downturn in economic activity in one or more economies.

Traditional business cycles undergo four stages: expansion, prosperity, contraction, and recession. The United States economy is not immune to experiencing all of these cycles. Whether we like it or not, our economy is not built to go on indefinitely without hitting any bumps in the road. Over time, excesses tend to build up in our markets and they have to be worked out for the economy to get back to a healthy, realistic, and sustainable rate of growth.

The current recession has been one of the most severe in the post World War II (WWII) era, but generally speaking, recent recessions have tended to be briefer and shallower than in the past. The reason for this is two-fold. First, economic data before WWII was less accurate and tended to overstate the magnitude of economic swings. Second, the U.S. Government has, over the years, initiated policies and learned from past mistakes to minimize the severity of economic downturns.

According to the NBER, the current recession began in December 2007 and bottomed in the first three months of 2009 when economic activity declined at a 6.4% annual rate. Recent data suggests that the recession ended sometime during the summer of 2009, although the NBER has yet to make that official determination. What does the data tell us? This was the longest post WWII recession on record and the most severe since 1982.

Since WWII, the U.S. economy has experienced 10 recessions and emerged each time into a new expansionary period. The longest sustained period of economic growth on record began in March 1991 and lasted until March 2001, a duration of 10 years.

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Listen In On Our Conference Calls

On March 2nd, we held a conference call with clients to discuss important tax code changes for 2009, as well as Roth IRA conversions. If you were unable to listen in on the call, you can go to our website at **www.girardpartners.com** and listen at your convenience.

Don't miss our next conference call on April 20th, where we will recap the first quarter of 2010 and provide an update on Girard Partners' expectations for the remainder of the year.

Technology Update

To stay competitive in any business, investments in technology are necessary to improve efficiencies and enhance the client experience. After extensive research and deliberation, we've decided to replace the software we have used for the past 12 years to manage client portfolios and relationships. Most likely, your statements will look differently in the next quarter.

While this is an enormous undertaking, we are fairly far along in the conversion, and are confident that this will allow us to improve our relationship with you and manage your portfolio more efficiently.

More information about this enhancement will be available in coming months. We fully expect to roll out this new software by the end of the second quarter of this year.

Like Numbers?

If you find yourself interested in figures related to U.S. National Debt, tax revenue, U.S. GDP, or anything else associated with government income and expenses, we encourage you to visit **www.usdebtclock.org**, which provides a real-time snapshot of our country's balance sheet.

www.girardpartners.com
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Foreign Bond Exposure

by David Geibel, Vice President & Sr. Financial Analyst

In early 2007, Girard Partners' Investment Committee decided to allocate a portion of our clients' fixed income assets to foreign bonds. There were several reasons which factored into our decision to add this asset class:

Foreign bonds are a good source of diversification because they have a low correlation to U.S. markets (.30 to S&P 500 over 20 years).

Foreign bonds have historically provided protection or a hedge against a weak U.S. dollar and higher inflation. On a risk adjusted basis, the **returns and interest payments have been superior** to U.S. Bonds.

The majority of the world's debt is issued outside the U.S. and we believe it is important to have exposure to this often overlooked asset class.

Because of the complexity of managing foreign bonds and the need to diversify within the asset class, Girard Partners' management team sifted through dozens of global bond funds and selected the Templeton Global Bond fund. Templeton has been managing assets since 1947 and this particular fund has been in service since 1986. The breadth of experience, track record, and quality of the management team were major factors in our decision.

The fund has not disappointed, logging a 7.48% return year to date, 13.98% over the past three years, and 11.47% in the past five years. The returns have far exceeded the competing benchmark and have even outclassed the more volatile equity indices.

In recent months, we have all read the headlines about Greece and the potential that the government of Greece may become insolvent and not be able to meet their debt obligations. There are also concerns about Portugal, Italy, and Spain which has prompted the creation of the infamous acronym "PIGS." The PIGS all face the same lingering issues: they are nations plagued with high unemployment, a large social entitlement system, and very slow or negative economic growth in contrast with the world's economic recovery.

Fortunately, the Templeton Global Bond fund positioned out of the PIGS and other sections of European debt well in advance of the publicized news.

Despite some pockets of concern (mainly in Europe) we believe there continues to be significant opportunity in a well positioned portfolio of foreign bonds. The developing world is experiencing significant economic growth, budget surpluses, and an emerging middle class. We believe this trend will continue and present the opportunity to be a lender on the world stage.

Girard Partners Awarded 5-Star: Best in Client Satisfaction Wealth Manager by *Philadelphia Magazine*

Over 100,000 high net worth consumers and 7,400 financial services professionals were asked to evaluate wealth managers in the Delaware Valley region. The final list was reviewed by a blue ribbon panel of financial services industry experts. Less than 7% of wealth managers in the Philadelphia area were selected.

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Conversely, since WWII, the average recession has lasted a mere 10 months, making the current recession one of the most severe since the Great Depression.

With all the tools at the disposal of the U.S. Government and Federal Reserve to minimize the severity of recessions, why was this one of the longest and most severe? Consumer spending represents 71% of U.S. GDP. After many years of excessive borrowing and unnecessary spending, the U.S. consumer had finally hit a wall. When you combine this with a plunge in business and consumer confidence, a reluctance to lend by financial institutions, and declining home prices, you have the perfect storm for a protracted and painful recession. The time had come to remove the excesses that had built up in the economy.

Third and fourth quarter 2009 economic growth has offered hope that the U.S. economy is on the mend and is poised to enter a cycle of expansion that lasts for some time. Concerns remain that once the Government and Federal Reserve begin to remove the economic stimulus they injected to avert an economic disaster, the economy will turn down once again. More likely, however, the economy is poised to sustain itself without fiscal stimulus and that economic growth will at times be uneven and moderate, but the likelihood of a "double dip" recession has decreased.

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