

Sound Investments Inc.

Kenneth A. Gilpin CFP

First Quarter 2011

DJIA 12319.73

S&P 500 1325.83

NSDAQ 2789.60

We upgraded based upon the observation, that few, if any money managers consistently excel. Instead, we observed a wide range of performance returns, with only a small percentage of professional money managers investing in the right sectors of the equity markets at any given time.

This is because each money manager has a particular style that works well in some, but not in all market environments. Market leadership rotates between large-caps and small-caps, growth and value styles, and international and domestic areas. Leadership changes because economic conditions change. However, most fund managers do not change their particular styles when the market leadership changes.

Since market leadership is forever changing, we move incrementally towards the top ranked funds by progressively selling the lower ranked funds and investing in the new leaders. **This continuous process provides an effective way to invest in a broad range of investment opportunities as they develop.**

We use no load funds, exchange traded funds and some stocks as they provide access to the talents and research of the country's leading money managers, while they are at the top of their game.

A Crystal Ball

For once, I am really glad I didn't have a crystal ball to predict the future. Three months ago, if my crystal ball had foreseen almost \$4 per gallon gasoline, major rioting, government changes across the Middle East, and one of the largest earthquakes in recorded history, I would have concluded that consumer spending was in for a major tumble and that the stock market would fall at least 10%–20%. Instead, consumer spending continues to increase, while the S&P 500 is very near its recovery high. Indeed, the S&P 500 posted its best first-quarter performance in 13 years. The Dow is closing in on a new 52-week high as merger and acquisition activity picks up

Why no reaction from the news? In the spring of last year, the European debt crisis drove the market down 16% so what has changed? There are 2 reasons the market headed higher. 1) Improving economy 2) The enormous price increase oil and commodities from wheat to copper has driven up the shares of these firms. I want to review each of these factors to enlighten and share some thoughts on the current situation.

The Improving Economy

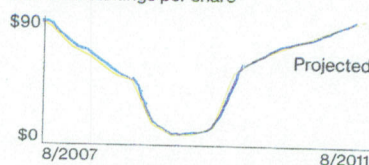
1. The tide is beginning to turn on the employment front. It's true jobs are not being created fast enough to dramatically lower the unemployment rate. If you add those working part time, people who are working at temporary jobs or have stopped looking, the jobless figure might be well in excess of 15%. Nevertheless, with 216,000 jobs added in March, on top of the 194,000 added in Feb, things are looking up.
2. Earnings continue to be good. Companies in the S&P 500 are expected to see their group earnings reach a record \$91 a share by Aug. (see chart)

Investing

Record Earnings Point To Stock Market Gains

► Individuals who missed the rally are piling in, providing more fuel

► A New High on the Horizon
S&P 500 earnings per share*



*INFLATION ADJUSTED, PAST 12 MONTHS
DATA: BLOOMBERG ROBERT SHILLER

This surpasses the previous peak reached of \$90 a share. It is also being the fastest rebound in profits.

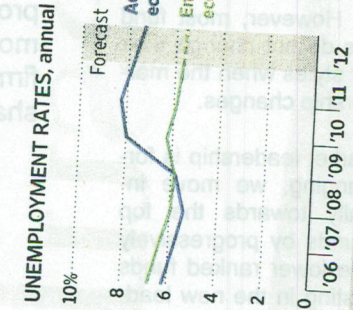
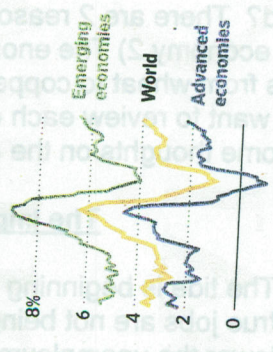
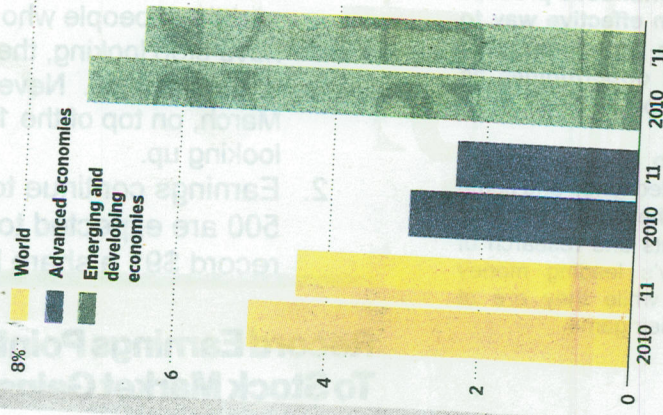
Manufacturing continues to burn up the track. Purchasing managers, both here and abroad, report continued strength. This growth is

WORLD NEWS

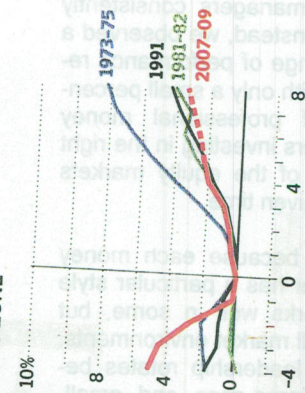
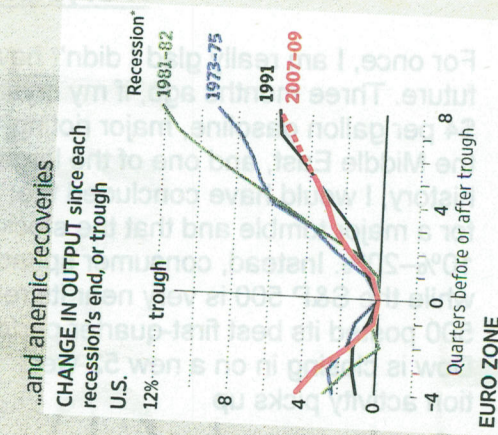
Tuesday, April 12, 2011 A9

A Less Than Optimistic Outlook

Advanced economies face slower growth and higher unemployment...
INFLATION, change from a year earlier in consumer prices



U.S. National Bureau of Economic Research recession dates



Source: International Monetary Fund

We ARE slower coming out of This recession

Less Developed Countries OR emerging MARKETS are growing faster.

driven by a better farm economy, a reinvigorated auto sector, and strong demand for machinery.

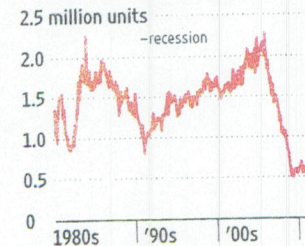
3. Consumer spending is by and large positive.

An article in the Wall Street Journal was entitled, "A Less than Optimistic Outlook" and had wonderful colored graphs that reproduced on the back of page one. The blue lines show the advanced economies (i.e. USA & Europe) having a slower rate of growth and higher rates of unemployment. Why isn't this recovery stronger? What is missing?

One of the key ingredients that is missing is housing. In past recoveries, new home construction accounted for 19% of the growth. As can be seen by the chart on the right, the recovery is not getting any help from the housing sector. Distressed sales continue to influence prices as 39% of home sales were in foreclosure or short sale categories.

No Help This Time

New home construction, monthly, seasonally adjusted annual rate



Source: St. Louis Federal Reserve

So, when you add it up, the overall picture is one of a continued gradual economic recovery. I want to address the reasons and impact of higher price of **Oil and Commodities**

One of the ways the Federal Government pays its bills is by printing money, which results over time, in a lower US Dollar. Over the last 2 years the dollar has lost 20% of its value compared to other major currencies since oil is priced in dollars the price of oil rose. In addition, emerging countries such as China and India are increasing the demand for oil and commodities. Today, China is the 2nd largest importer of crude behind the U.S. This demand is real and growing and is the main driver in the doubling of energy prices. Wheat, corn, and other commodities have also double over the last year. Since we are spending more on food and energy, we will not have enough money to invest to promote growth. These surging prices could pose serious obstacles to growth. Rising prices leads to inflation. We've all seen the effect of this on gasoline and food prices

So Where Are We Going?

On the back of this page, there is a 20 year chart of the S&P 500. You will see it hit a high of approx 1500 in the year 2000 and again in 2007. After these peaks, the market retreated to the 800 mark. We are not going back to these lows. I do not expect a serious decline: there is positive momentum and resilience in the face of global events.

The index is currently at 1320. Based on a less than robust recovery, it may take some time to break through 1500. There is a lot of money on the sidelines, and a run up to 1450 is not out of the question; we follow an upgrading strategy following a momentum which has tended to skew our investments to energy area. T. R. Price completed a study on the S&P 500 index from 1926 to 1997 where the rate of return was 10.99%. However if you remove the best performing month in each of those 71 years the internal rate of return would fall to 1.38%. Therefore designing portfolios that keep you in the game is one of the most important services I can provide.

Stocks - Charts

- Overview
- News
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Market data is delayed by at least 15 minutes.

DJ Industrial Average
12,224.30
22.71 up 0.19%

NASDAQ Composite Index
2,733.91
1.47 down (0.05%)

S&P 500 Index
1,307.10
1.96 up 0.15%

Russell 2000
821.31
0.2 down (0.02%)

S&P 500 Index Market Data Express: \$SPX.X [Set Alert](#)

1,307.10 ▲ 1.96 (0.15%) [Realtime Quote](#)

52 Week High 1,344.07 52 Week Low 1,010.91

Vol. 831,436,600 (Above Avg) Avg. Daily Vol. 3,006,649,600

Stocks [Symbol Lookup](#)

Symbol or Name...



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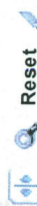
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Chart Style Upper Indicators Lower Indicators Comparisons and Events

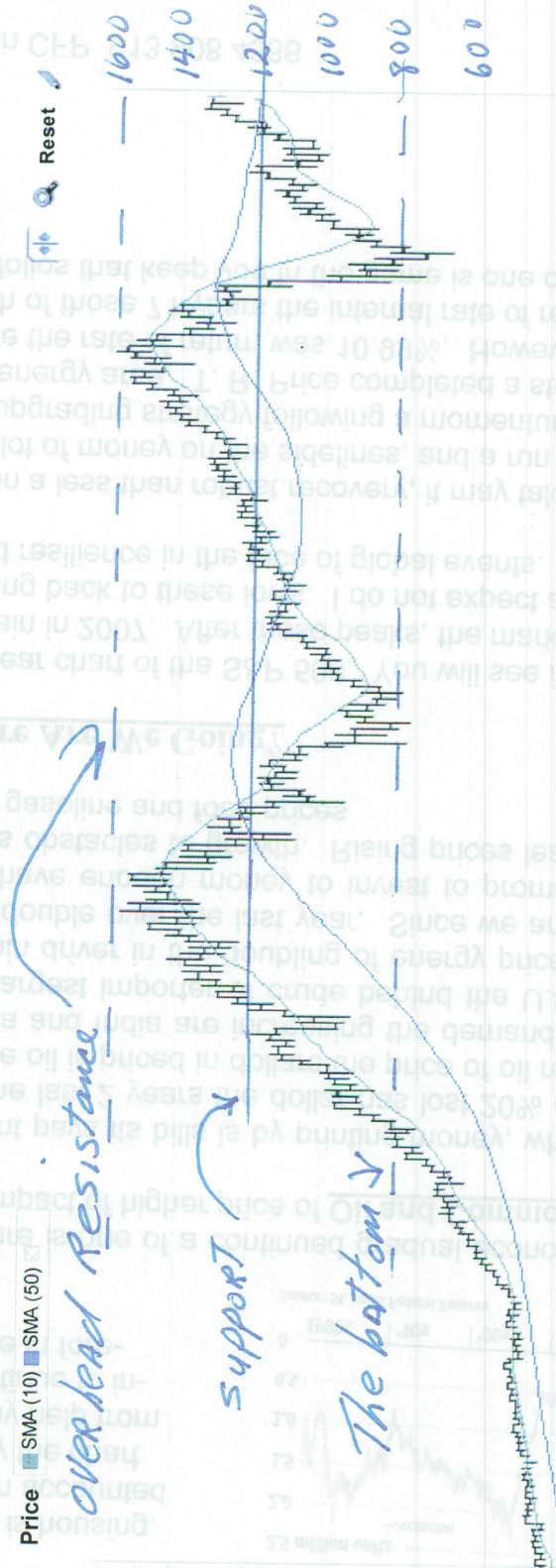
1hr | 1day | 2day | 5day | 10day | 1mo | 3mo | 6mo | YTD | 1yr | 3yr | 5yr | 10yr | 20yr

Price ■ SMA (10) ■ SMA (50)

Monthly



[Save Chart Settings](#)



1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010

Volume ■ ■ ■