



Retirement News

DEIGHAN ASSOCIATES, INC. - REGISTERED INVESTMENT ADVISOR - TELEPHONE 800 990 1117 - FAX 207 990 1551

MARKET COMMENTARY

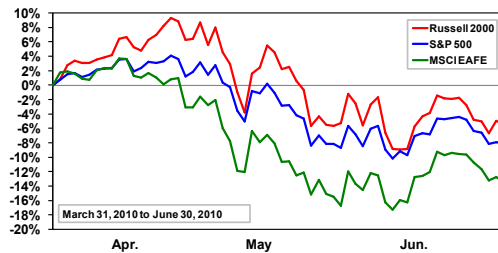
Second Quarter
2010

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*It is never too late
or too early to take
your retirement
future into your
own hands.*

Last quarter, we closed our Market Commentary with a timely piece of advice: don't let a rising market lull you into complacency. Since then, we've seen a sharp spike in price volatility. No longer groggy from their winter naps, market bears are alive and hungry. The meal du jour has been the euro, which has fallen nearly 10% since the end of March. European sovereign debt woes have weighed heavily on most asset classes, prompting broad indiscriminate risk reduction worldwide. The S&P 500 Index finished the quarter down -11.43%, its first negative quarterly return since the first quarter of 2009. The MSCI EAFE Index finished down -13.97%, and the Russell 2000 Index lost -9.92%. By contrast, U.S. Treasuries have rallied. Yields on the 2-year note recently reached record lows (yields fall when prices rise), and the yield on the 10-year note dipped below 3% for the first time since April 2009.



It would be an understatement to say investors were complacent going into the second quarter of 2010. We heard from a number of analysts who largely opined that stocks could only continue to increase in value. Meanwhile, we were left scratching our heads, because we just didn't see it. The Dow Jones Industrial Average had already increased 71% trough-to-peak, and economic indicators were increasingly mixed. You can only fly so far so fast. It is unfortunate that we were correct. Markets began to correct in early May.

On May 6th, markets experienced a brief, albeit telling, moment of panic when the Dow lost over 1,000 points in a matter of

minutes. Though the "flash crash" was caused in error and most of the trades were busted, it set the tone for the rest of the quarter. Investors began to realize that, regardless of the true cause of the crash, markets had the potential for a drop. The rose-colored glasses had been removed.

The flash crash put investors on notice, but it was the sovereign debt crisis in Greece and the rest of Europe that precipitated declines in May and June. Markets initially rejoiced at the \$1 trillion bailout package jointly hammered out by the European Union and the International Monetary Fund. However, as reality set in, it became apparent that even a bailout of this magnitude might not be able to address the structural issues facing Europe and indeed the entire Western world. The debt burden has simply become too large. Austerity is the new game in town, but its acceptance has been far from widespread. Rioting in Greece over severe spending cuts has demonstrated that it is often difficult for societies to tolerate pain in the short term in order to correct long-term problems. What makes the austerity argument even more difficult at the present time is the fact that the global economic recovery has shown signs of particular weakness over the past few months. There is debate as to whether more spending is needed, rather than less, despite already untenable debt loads, because to pull back now could be to pull the plug on a patient still in need of the respirator. Many believe that, while austerity might be an eventual necessity, it is not the right solution in the very near term.

In the U.S., May home sales dropped 30% to the lowest level on record dating back to 2001. This is a sign that the housing recovery is not yet strong enough to survive without government stimulus, and is but one of several negative readings released within the past few days. Last week, new claims for state unemployment aid rose unexpectedly. Meanwhile, the Conference Board's index of consumer confidence fell to 52.9 in June

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from a downwardly revised 62.7 in May. The drop put the reading sharply below analyst forecasts. Manufacturing growth has also slowed more than forecast. Surveys show that manufacturing growth in both China and the 16-member euro region has weakened, and the U.S. Institute for Supply Management's manufacturing index fell to 56.2 in June from 59.7 in May. Combine all this with the ongoing tragedy in the Gulf of Mexico, and investors have had little positive news of late. What seemed like a stable, trudging recovery in the first few months of the year now appears to be less certain.

With the return of uncertainty has come the return of volatility. Back in April, the CBOE Volatility Index (VIX), which tracks the implied volatility of S&P 500 Index options, was trending toward 5-year lows. However, by May 20th, the VIX had shot up to 45.79 from a low of just 15.58. In the second quarter, the Dow Jones Industrial Average experienced swings in value greater than 100 points on 29 out of 63 trading days. Looking only at May and June, 24 out of 42 trading days suffered such swings. We expect this level of volatility to continue, as more readings come in negative or mixed. Therefore, we have been working to systematically position portfolios so as to balance the short-term increase in volatility with certain other long-term risks, such as rising interest rates and inflation.

In May, we made several changes to the funds offered within the Plan. First, due to deteriorating conditions in Europe, we reduced our developed international stock exposure and completely removed Artisan In-

ternational Fund (ARTIX). We replaced it with Schwab International Index (SWISX), which offers broad developed international stock exposure at a lower cost. We also added Oppenheimer Developing Markets (ODMAX), which provides direct emerging market stock exposure. In order to give the Plan greater choice and flexibility, we added two bond funds and one market neutral fund. Artio Global High Income (BJBHX) offers exposure to high yield bonds from all over the world, while PIMCO Short Term Bond (PSHDX) invests in bonds maturing within 3 years. Both of these funds can help you mitigate interest rate risk, as interest rates start to rise. The market neutral fund, Gateway (GATEX), invests in stocks, but it uses call and put options to minimize the effects of market volatility on fund performance. You should expect it to perform a bit better than the S&P 500 Index during downturns, but a bit worse when markets rally. Finally, we also completely removed Winslow Green Growth (WGGFX) from the Plan.

The important thing to remember during volatile times like these is to maintain a steady hand. Like ocean waves, asset prices rise and asset prices fall; it's a natural part of investing. As an investor, there are some storms you can predict and other storms you just have to ride out. The next few months will help determine whether we're in the midst of a temporary flash crash or a longer downward trend. We hope it's just the former, but it helps to be prepared for the latter. Until next time, enjoy your summer.

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FREQUENTLY ASKED QUESTIONS

Q: How do I access my account and make changes on the web?

A: It's easy! Just go to <https://asp.schwabrt.com/RAI> and Log in using your SSN and 6-digit birth date as your PIN. You can change your username and PIN afterwards.

Q: How do I access my account and make changes by phone?

A: Just call Retirement Alliance at 800-523-4015. Hold on the line for an account specialist.

Q: If I have a question about one of the investment choices in the plan, who can help?

A: Jean Deighan and Matt Skaves at Deighan Associates are pleased to answer any of your questions. They may be reached at 800-990-1117 or at info@deighan.com.

Q: May I make changes to my account in writing with a paper request?

A: No, you must use either the web form or the telephone voice system.

Q: Who can help if I have a question regarding a trade in my account?

A: Call Retirement Alliance at 800-523-4015. They execute and monitor your account transactions.