



Commentary for Second Quarter 2009

I hope everyone is enjoying their summer so far.

The past 6 months have been interesting to say the least, with the S&P 500 hitting its lowest point on March 9th at 676 points and rebounding back to the 900 range by early May. Over the past 4 months, the Federal Reserve has been aggressively expanding its purchases of long-term Treasury securities and agency mortgage-backed securities. This has helped home buyers and homeowners get lower mortgage interest rates. It has been noted that housing is more affordable now than anytime in the past 20 years.

An interesting question that many people may be wondering is “Where did all the bailout money go?”. An article by Morgan Housel reveals that of the \$700B (billion) in TARP funds, \$172.6B is money still held by banks; \$18.3B is dedicated to mortgage modifications; \$69.8B is with AIG, \$85.0B went to the auto industry; \$20.0B is committed to the Term Asset-Backed Securities Loan Facility; \$70.0B has been repaid; \$264.3B is still available.

One of the great debates within the financial industry today is whether the Fed’s decision to print more than \$1 trillion new dollars and the Treasury department’s decision to borrow more money are hyperinflationary. In an environment of low unemployment, their respective actions would likely be hyperinflationary. However, given our current economic condition, with unemployment at 1983 levels and potentially worsening, hyperinflation does not appear likely in the near term. Inflation occurs when too many dollars chase after the same goods, but when the general public does not have the dollars to spend then inflation is kept at bay. No one really knows how long will we be in this high unemployment setting, but at some point the economy will improve and the risk of hyperinflation will materialize if the government retains its loose monetary policy.

The world economy remains weak, but we are starting to see some potential signs of improvement as lending restarts and the general public’s fear of a great depression subsides. The housing market remains unclear as the number of home foreclosures continues to increase in some areas, but appears to have bottomed out in others. Until we see home prices stabilize in the U.S., we will continue to question the validity of any perceived market recovery.

We believe that the volatility in the equity markets will decrease moving forward and anticipate better earnings from corporations around the world in 2010. We strive to maintain a broad allocation across all sectors and regions, in order to take advantage of market improvements. Now is a great time to conduct your annual financial planning review and ensure that your accounts are still in line with your goals and objectives.



Morling Financial Advisors, LLC.

I would like to introduce you to our newest MFA member, Matt Shibata. Matt brings a broad variety of skills sets and is excited to utilize his experience to deliver superior service to you and your family. Matt graduated with honors from the University of California, at Santa Barbara, and was previously with the Global Wealth and Investment Management division at Bank of America. He and his wife reside in the East Bay, and love to travel. As a matter of fact they have traveled most of the world at this point, so don't forget to inquire with him before your next trip. Please do not hesitate to call us if you should have any questions or if you would like to set up a meeting for your annual review.

We hope you and your family have a wonderful summer.

Sincerely yours,

MFA Team