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**Celebrating Our 100<sup>th</sup> Client**

We are excited to announce that earlier this year, MMM & LGA together reached a milestone of one hundred client families served. Over the last seven years, we have worked together with clients to plan, build towards, and live life's dreams. We are honored to be entrusted with the important work of supporting these wonderful families.

We are further energized about finding more people who are unhappy with their available options or are underserved by current advisors.

From helping husbands and wives compromise on a common set of goals, to helping business owners diversify their assets, to helping retirees figure out how to not outlive their nest egg, we care deeply about our work.

Please share your story with friends and have them reach out to us at [info@MMMWealth.com](mailto:info@MMMWealth.com)

[www.MMMWealth.com](http://www.MMMWealth.com)

## Market Overview & Commentary

Markets typically move in a volatile sideways manner during the second year of recoveries from recessions. Conflicting economic data in the first half of 2010 caused 6-10 week moves in the shapes of a “V” and a “W.” Most recently, the S&P 500 declined 16% from the April highs, after an 80% rally from March '09 lows. This suggests a move out of the early bull market recovery and into the expected second-year sideways and range-bound phase, consolidating the massive 2009 gains. These time periods can be highly volatile due to the fits and starts of a handoff from government stimulus to private market demand. However, most recoveries push through this volatile phase after two or three quarters, eventually leading to a renewed bull market.

## Portfolio Review

While our portfolios delivered returns far in excess of market indexes during 2009, 2010 has so far proven to be a more challenging environment. With the majority of traditional investment asset classes once again moving in tandem (a continued thorn in the side to modern portfolio theory), our newly added diversifiers (long/short funds, merger-arbitrage funds, and managed futures funds) helped blunt recent declines, especially amongst conservative clients with heavier weightings of diversifiers to reduce volatility. During the quarter, we missed an opportunity to sell or hedge prior to the recent 16% downturn, with markets turning down sooner than expected. Additionally, we experienced headwinds to our foreign equity holdings due to the European crisis and advancing US dollar. Our undervalued small-cap holdings declined more than the market, as bids dried up on these more illiquid assets. However, we made up for these drags with positive returns in fixed income holdings and currency trading techniques.

## Looking Ahead

We expect markets to continue fluctuating based on conflicting signals. For example, many market influencers point to the decline in leading economic indicators as a reason for our recent market pullback, arguing this is a sign of a coming double-dip recession. However, back-to-back recessions are incredibly rare, and leading indicators actually do tend to soften during second-years of recoveries. What's more important is that coincident (current) indicators start to move from negative to positive at the same time, as is currently the case (see Chart I; grey bars represent US recessions since the early 80's). Consequently, history tells us that our current situation may more closely resemble the choppy emergence from a recession versus a renewed dip back into recession.

## Looking Ahead (continued)



Chart I – Forecast of Potential Recovery Ahead

Another popular double-dip argument contends debt levels in the US and Europe are unsustainable. Governments would need to reduce spending and increase taxes, both headwinds to growth. We agree government deficits and debts are too high, but this argument ignores the impact of other growth engines in businesses and consumers, and assumes current government trends will be extrapolated ad infinitum. In fact:

- **Businesses restructured** during the downturn, resulting in the highest cash -to-debt levels in decades.
- **Consumers drastically repaired balance sheets** over the last two years by spending less, saving more, and paying down debt.
- **Governments will reduce deficits** when stimulus spending runs its course and tax revenues increase from a rebounding economy.

Equities are undervalued after recent declines, credit markets have improved since the European debt crisis, and technical charts bounced off of support at the S&P 500's 350 day moving average. Consequently, we expect an early July rebound off of recent lows, and renewed outperformance amongst foreign equities. Furthermore, active trading could make or break returns during this period, so we will attempt to better anticipate major reversals, selling or hedging on strength and buying on weakness. We stay aware of alternative outcomes and will adjust accordingly.

As always, we encourage you to pursue life's dreams while we help you achieve your financial goals!

Warm Regards,

Raphael & Megan Martorello  
MMM - Martorello Money Management, Inc.

### QUESTIONS?

As always, we are available to discuss any questions you may have regarding our progress towards your financial and investment objectives.

### REFERRALS?

We appreciate your referrals as they are the lifeline to our business. Please let your family, friends and colleagues know about our wealth management services.

### Contact Us

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