



CPS in the News

Events this quarter

Speaking engagements

Chas was a guest speaker at FICPA in May-Economic Forecast & Market Update

Chas is scheduled to speak in Tampa in June-Retirement Income for the Business Owner

"CPS First Thursdays:"

July: Maintain your Brain: Age Related Changes vs. Dementia

Cost: Free

RSVP to:

CPS Investment Advisors
1509 S Florida Ave
Lakeland, FL 33803
863-688-1725 or
beth@cpalliance.com

11:30 am—Lunch
Provided

Contact us for more dates

Fundamentals Still Strong for Higher Stock Returns in 2011

Predictions of doom and gloom have become the latest sensation overshadowing the U.S. recovery. CNBC and many politicians tell us the Federal debt will grow unchecked and that gold and silver are the new alternate currencies. These pundits are also predicting that foreigners will unload all of their U.S. Treasury bonds and that the dollar will continue to decline. While these are major hurdles to overcome we are confident that Americans are resourceful and will correct its deficit spending habits. Often times, a financial crisis (similar to 2008-09) is exactly the type of catalyst necessary for a country to make significant changes in its spending habits. This month we will explain why you should not deviate from your long-term investment strategy.

Notwithstanding political events and front page headlines, we continue to be optimistic about a recovery in the stock market for a number of reasons.

Stocks Undervalued versus U.S. Treasuries & High Quality Bonds

- U.S. Corporate profits hit a record in the third and fourth quarters of 2010 and the first quarter of 2011. Corporations are stepping up their purchases of their own stock on the open market with excess cash reserves.
- Interest rates in the U.S. and global economies are very low which has enabled corporations and homeowners to refinance their debt.
- Dividend increases by the S&P 500 have set new records as companies are rewarding shareholders with a distribution of profits.
- The savings rate in the U.S. turned positive in 2010 and is continuing to improve in 2011.
- Money market funds and CD yields are so low investors continue to look for alternative investments including stocks. Eventually, a portion of those funds will come back to the equity markets.
- Price to earnings ratios for the S&P 500 are currently 12 to 13 times 2011 forecasted profits. Historic norms are 15 to 16 times one year's earnings. Many market gurus estimate the U.S. and global markets are undervalued by 20% or more.
- Banks have enhanced their lending standards dramatically to insure they won't incur a repeat of losses from 2008-09. They know the federal government won't bail them out again.
- Extension of the Bush Tax Cuts and an administration that has recently turned more friendly to Wall Street has encouraged investors to return to the stock market.
- Inflation other than food and energy remain fairly benign.

Sources: Wall St. Journal, Barron's and Investors Business Daily



U. S. Treasury Notes and High Quality Bond Investors Beware

This is a repeat of our January, 2011 warning that bond valuations are too high and yields too low!

While we continue to preach the importance of asset allocation and diversification including fixed income for a portion of your portfolio, there are numerous storm warnings on the horizon for intermediate and long term bonds. The thirty year bull market in bonds probably ended in November, 2010 after the Federal Reserve announced QE II (the purchase of an additional \$600 billion of U.S. Treasuries). The Fed has been purchasing U.S. Treasury notes, bonds and agency debt during this fiscal crisis. It is now the largest holder of U.S. debt instruments surpassing mutual fund investors, China and Japan. Where does the Fed obtain the funds to buy the debt issued by the U.S. Treasury? It merely prints the money on its printing press and buys the debt at the periodic auctions if outside investors fail to buy our debt.

The Fed is playing with fire in our view and the view of many economists. Eventually, interest rates are going higher. With the global economy recovering and the demand for money increasing, interest rates will be increasing. Higher interest rates are the enemy of bondholders, in particular, intermediate and long term bonds which are very sensitive to rate increases and move in an inverse relationship to rate changes (when rates go up, bond prices decline).

Bill Gross, the chief financial officer of PIMCO, one of the largest bond mutual funds in the U.S. recently sold all of the fund's U.S. Treasury and U.S. Agency bonds. His concern is the same as ours and that is: interest rates only have one direction to move from here and that is higher. How high and how fast will only be determined in the future. The final blow to this problem was emphasized this month when Standard & Poor's, the bond rating agency, warned the U.S. government that it was placing the U.S. Treasury bond on a "watch list" for possible downgrade from AAA to AA.

Global economies are improving at a moderate rate and many emerging market countries have already increased their low interest rates to forestall inflation.

Municipal Bonds-Facing Hurdles

As we mentioned previously, local and state governments are facing headwinds with ever decreasing tax revenue and increased pension and healthcare costs mandated by employee contracts. Investors are scrutinizing the underlying ability of municipalities to meet their obligations. California in particular is in the headlines daily as it faces the largest state wide budget deficit in the country. Again, we emphasize diversification, safety and shortening maturities wherever possible to mitigate principal losses due to higher interest rates or default. On the flip side, we will probably see buying opportunities when Wall Street and investors over due it by selling municipals across all maturities and investment grades.

CPS' Strategy on Fixed Income for 2011

In the fourth quarter we made numerous changes in our managed portfolios to mitigate potential declines in our fixed income allocation. We captured profits in a number of areas and added to high yield, convertible securities, international bonds and floating rate bonds. These positions are complimented with short term bonds and short term bond mutual funds. When interest rates do turn higher we will consider shorting U.S. Treasury bonds as a hedge to protect our principal values in our bond funds. Interest rates have begun to edge higher but not much. We will see what happens after June 30, 2011, the announced end of QE II, the Federal Reserve's date for discontinuing the purchase of U.S. Treasury Bonds and U.S. Agency Bonds.



High Dividend Dow Stocks (as of May 27, 2011)

One year ago the U.S. 10 year Treasury note yielded 2.8% and today it is yielding 3.1%. By contrast, one third of the Dow Jones Industrial 30 stocks either match or exceed the yield on the U.S. 10 year Treasury.

<u>Company *</u>	<u>Stock Price</u>	<u>Dividend Yield</u>
ATT	\$ 31	5.5%
Verizon	\$ 37	5.3%
Merck	\$ 36	4.2%
Pfizer	\$ 21	3.8%
Johnson & Johnson	\$ 67	3.4%
Kraft	\$ 35	3.3%
Intel	\$ 22	3.2%
Proctor & Gamble	\$ 66	3.2%
Dupont	\$ 53	3.1%
General Electric	\$ 19	3.1%

Source: Dogs of the Dow—<http://www.dogsofthedow.com> 5/27/2011

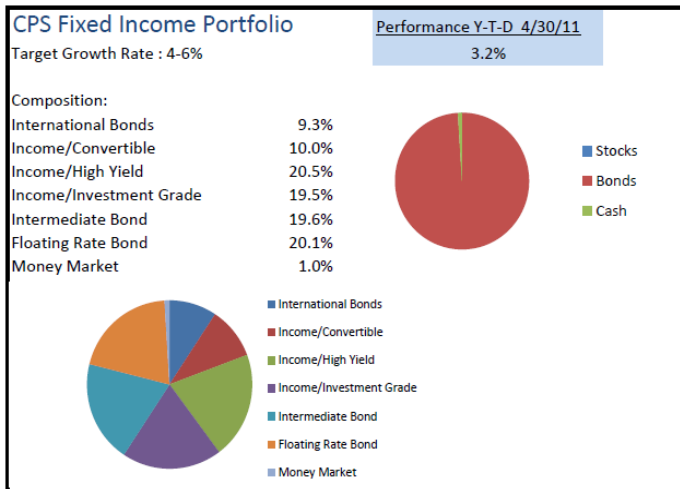
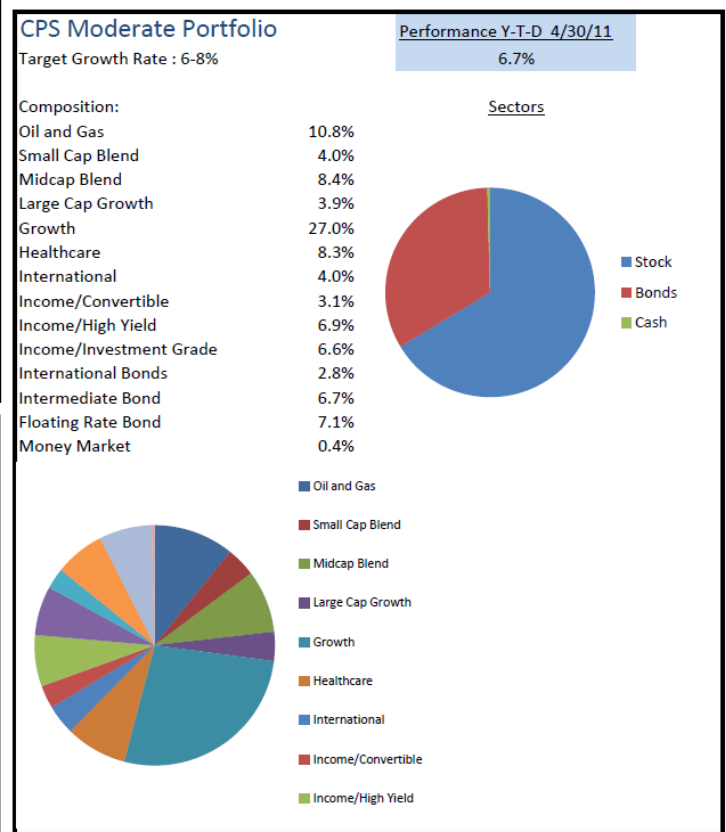
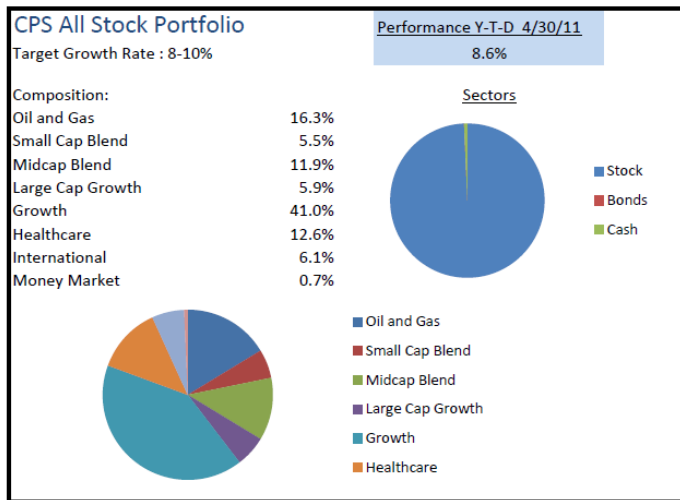
Conclusion

There will be continued volatility in the markets, it is the nature of the beast. However, volatility can be a friend of the investors providing us opportunities to buy when everyone else is selling.

* **Disclosures:** Past performance is not a guarantee of future results. Listing of stocks, bonds and mutual funds in this newsletter is not a recommendation to purchase, or sell any of the securities. The securities mentioned are used for educational purposes only.

CPS Investment Advisors

Performance by Style*



Thank you for the many kind referrals sent to us. Referrals are the truest measure of your confidence in our firm and we appreciate the loyalty of our clients.

*Disclosures: Past performance is not a guarantee of future results. CPS returns are actual managed portfolios using, primarily, Fidelity no-load mutual funds. Fund families other than Fidelity may charge transaction fees which could cause the performance to be lower in certain circumstances. These portfolios attempt to mirror our average accounts in the three styles listed. CPS returns are net of management fees of 1.5% annually for CPS All Stock and CPS Moderate and 1.0% for CPS Fixed Income. CPS does not publish composite results for client managed accounts. Performance results on managed accounts may be materially different from the results reflected above.