

Market Review and Outlook—April 14, 2009

Is it Safe? The S&P 500 stock index has fallen for twelve of the past eighteen months. After a very painful January and February, stocks began to recover in March. Through April 3rd, stocks had their best four-week gain in over seventy years. So is it safe to invest in stocks again? Despite what ‘experts’ say, no one really knows. The economy will begin to recover, perhaps as soon as later this year. When consumer confidence recovers, and more to the point when investor confidence recovers, is unknown and unknowable.

The past three months have been very significant. We have a new US President, and a stronger majority in both houses of Congress. There was only one major meltdown story (this is a victory, only one!)—the revelation of the fraud by Stanford Financial, which is accused of defrauding thousands of clients of billions of dollars.

Negatives—Compared with three months ago, we have seen unemployment continue to rise, and it appears that this will could continue to worsen for over a year. GM and Chrysler appear to be in no better shape than they were in January, and AIG continues to lose large sums of money. While Asian countries appear to agree to economic stimulus similar to the US approach, most European governments, with the exception of Great Britain, do not agree that further stimulus is required. The US stimulus is causing the US Treasury to borrow vast amounts of money, and is causing the Fed to print still more large amounts of dollars. Many analysts are concerned that consumers will permanently boost their savings and cut their spending, leading to permanently reduced corporate profitability. There is also a concern that in the future, high inflation will be unavoidable.

Positives—We have several new pieces to the collection of stimulus/bailout provided to lessen the recession’s pain and fallout. Despite a slow start, Treasury Secretary Geitner has provided enough details on the financial bailout to calm much of the earlier concern. There are plans in place to address the auto industry, housing market, toxic assets, and bank’s balance sheets. The US admitted the problem quickly, and took quick significant steps to halt the crisis. Given the large price tags, we should be seeing positive results in the coming months.

But when will we see solid positive developments? Geez, if I knew that ...

Category	3 Months	Past Year	3-Yr Avg	5-Yr Avg	10-Yr Avg
Taxable Money Market	+0.22%	+1.73%	+3.58%	+2.87%	+3.00%
Intermediate Term Bond	-0.13%	-4.81%	+1.30%	+1.28%	+3.78%
Intermediate Muni Bond	+3.26%	+1.72%	+2.83%	+2.28%	+3.56%
Large-Cap Core Stock	-9.81%	-37.32%	-13.19%	-4.94%	-2.94%
Mid-Cap Core	-8.16%	-38.09%	-14.51%	-4.15%	+2.85%
Small-Cap Core	-12.61%	-38.37%	-17.16%	-5.25%	+3.92%
International Stock	-12.68%	-46.43%	-14.61%	-2.37%	+0.07%
Real Estate	-30.08%	-58.55%	-26.18%	-9.79%	+3.38%
Natural Resources	-8.11%	-49.87%	-11.49%	+5.49%	+7.52%
Science/Technology	+2.64%	-32.80%	-13.49%	-5.02%	-5.34%
Multi-Cap Growth	-4.66%	-36.76%	-13.13%	-3.94%	-2.49%
Multi-Cap Value	-11.68%	-40.10%	-15.71%	-5.37%	+0.85%
Balanced	-5.64%	-26.80%	-7.79%	-2.19%	+0.35%

The data in this table comes from Morningstar and the Wall Street Journal’s Quarterly Fund Analysis Markets Data Center. Information herein should not be construed by any consumer and/or prospective client as a solicitation to effect, or attempt to effect transactions in securities, or the rendering of personalized investment advice for compensation.

Some positive results have begun to appear, from the banking sector of all places! Citigroup reported that it has returned to profitability, for at least a month or two. Wells Fargo Bank last week announced a record profit in the most recent quarter. No, that is not a misprint! Goldman Sachs last night released better-than expected profits, and accelerated their plans to repay their government loan.

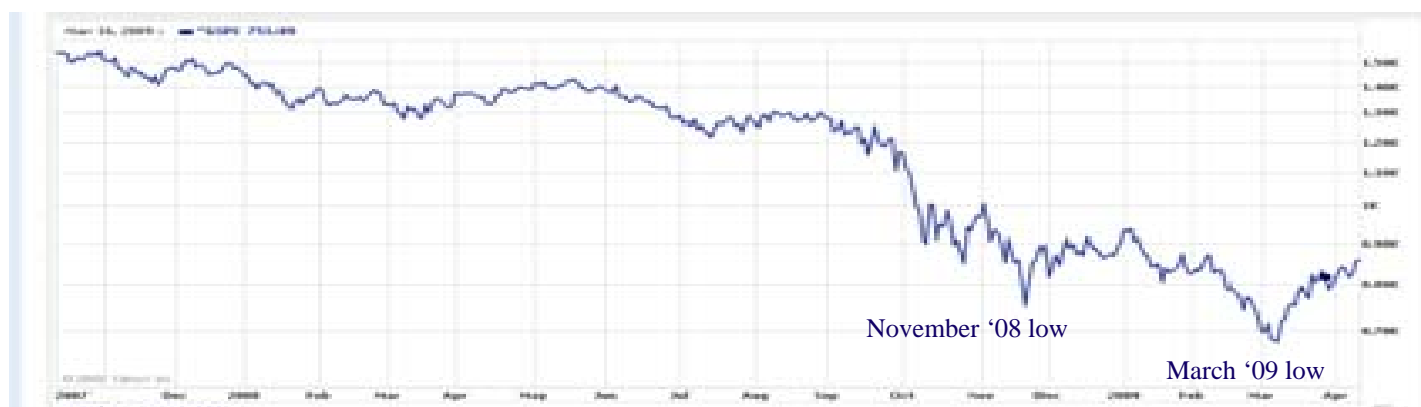
The Federal Reserve Bank has been buying up mortgage bonds, and in the process has succeeded in driving down interest rates. This has led to a wave of refinancing, which will likely last for most of the year. For these homeowners, refinancing means more money in their pockets.

Due to the miserable stock markets, many taxpayers saw their 2008 investment income fall, and their tax refunds increase. Refunds are up 15% versus last year at this time. This is putting more money in people's pockets.

US stocks have risen over 25% in five weeks. I don't offer this as proof that all of the pain is behind us, and that everything will be rosy going forward. I offer this to show that 1) stock markets do rise periodically, and 2) for five weeks, investors have agreed that the low levels that stocks had fallen to were simply too cheap to pass up. I also offer this to remind readers that both optimism and pessimism are contagious.

At quarter-end, there was \$3.9 trillion in money market funds, while there was only \$2.9 trillion in US stock funds, and under \$0.8 trillion in foreign stock funds. There is a very large supply of money on the sidelines—when investors regain their faith in the US economy, there will be a substantial tailwind for today's stock investors, as the mountain of cash bids stock prices higher and higher.

This is all normal. Economic troubles cause investors to enter a fear spiral. Sales beget further sales—stock prices plummet and money market balances climb. **It is different this time, but it is different every time**, and yet every time the economy, and stock markets recover. The biggest losers are not those who held onto their stocks, but those who sold their stocks as markets fell, and weren't able to buy back stocks before the stocks had managed much of their recovery.



The chart above shows the S&P 500 index from its peak in October 2007 through yesterday. Ask yourself when you were tempted to abandon your long-term investing plans. Was it in November 2008 when the markets fell over 23% in three weeks, or in early March when they had fallen 10% lower than November's lows? Now that we have recovered from both of those points, take a look at the chart, and ask, "when would have been the worst time to abandon your long-term investing plans?"

"Plan your play and play your plan." Setting a goal, such as having 65% of your retirement money in stocks, is easy. Standing by that goal while stocks are moving sideways and upwards isn't all that difficult. Doing so when stocks are dropping is very, very difficult, as your emotions are screaming at you to bail. Resist the temptation.

Investing isn't a game. Losses are not abstract numbers. Losses mean that you have less to live on during retirement, or less to pass onto others. This is very serious business, where decisions should not be entered into lightly, or driven by emotions. Thus work hard to avoid having your emotions overrule your intellect. Stocks will recover, and **long-term goals include enough bonds and cash to carry you through the recovery**. My prescription: focus on your long-term goals, and turn off cable financial news that feeds off emotion and is an enemy to your long-term financial goals.