Market Review and Outlook—March 5, 2010

Return from Armageddon. The stock markets hit bottom just over a year ago. The one-year figures in the table below (through 2/28/2010) are likely the best that you will ever see, for it reflects a rise from the very low levels reached last March when fear and pessimism reached new heights. Despite that, last March in this Market Review I noted "recognize that stock prices are incredibly cheap, and corporate bond yields are more attractive than they've been for years. Patience should be well rewarded, if you are able to avoid the fear trap." Investors who followed this advice were indeed richly rewarded.

Where's the Puck? A hockey player needs to skate to where the puck is going to be, not where it is now. Investors need to also focus on the future, not the past and present. I regularly look at the Conference Board's economic indicators. They have two, the coincident (current) and leading economic indicators, CEI and LEI. There are ten factors that make up the LEI. The three most significant are the money supply, the average weekly hours for manufacturing, and the interest rate spread (10 year treasuries less the fed funds rate). The CEI has only four component factors, and non-agricultural employees makes up almost 50%. The CEI peaked in late 2007, not coincidentally right when the US stock market peaked. It reached a bottom last Spring. The LEI, however, peaked and troughed much earlier. It hit a peak at the end of 2006, and reached its bottom one year ago, and HAS BEEN RISING EVERY MONTH SINCE THEN. The strength of the LEI's rise indicates that the US economy should be stronger in the coming months than it is now, and this is good news for today's stock investors.

Are We Ahead of Ourselves? In the past year stocks have risen over 50%. It is understandable to be concerned that stocks are therefore overpriced. I don't believe so, due to the starting point. One year ago stocks were insanely cheap. A 50-70% rise from that level is not necessarily overpriced. When I look at the 3-, 5-, and 10-year figures below, I conclude that, despite their recent rise, stocks remain reasonably priced. I am more concerned with bond prices, and the risk of losses to conservative investors who are unaware of this risk to their bond holdings.

While there are many economic challenges before us, investors should be able to review their portfolio today much more calmly than a year ago. Be deliberate in the amount of stocks and bonds. Spread stocks well, using both smaller stocks and foreign stocks. Beware low-yielding bonds and bond funds, which can lead to losses when interest rates rise in the coming quarters and years. Finally, be thankful that excessive greed and fear has left the market for the time being, and that we can more easily make better-informed decisions about our portfolios.

Category	3 Months	Past Year	3-Yr Avg	5-Yr Avg	10-Yr Avg
Taxable Money Market	+0.01%	+0.17%	+2.26%	+2.76%	+2.59%
Intermediate Term Bond	+1.25%	+17.84%	+4.66%	+4.27%	+5.68%
Intermediate Muni Bond	+1.69%	+9.19%	+4.00%	+3.70%	+4.80%
Large-Cap Core Stock	+1.74%	+53.54%	-5.77%	+0.31%	+0.44%
Mid-Cap Core	+6.28%	+65.14%	-5.22%	+1.65%	+3.86%
Small-Cap Core	+8.38%	+67.42%	-6.15%	+0.83%	+5.28%
International Stock	-3.65%	+54.04%	-7.98%	+2.01%	+0.10%
Real Estate	+6.40%	+94.97%	-14.95%	+0.27%	+10.00%
Natural Resources	-0.70%	+60.31%	+0.61%	+8.35%	+13.80%
Science/Technology	+2.84%	+66.43%	-0.73%	+3.67%	-9.14%
Moderate Allocation	+1.38%	+39.25%	-2.09%	+2.04%	+2.54%

The data in this table comes from Morningstar. 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.