Market Review and Outlook—March 11, 2009

It went from bad to worse. It seemed like we hit the bottom November 20th, as stocks surged over 15% in the next ten days, and continued to rise modestly in December. That all changed in 2009, as the stocks dove anew.

What's New? Nothing eye-opening occurred during these three months. The primary news could be viewed in two categories: the economy is indeed as bad as we were fearing in November, and the details of the steps to 'fix' the economy involve jaw-dropping price tags. Financial companies continued to post historic dollar losses, auto companies are in very bad shape, and lower profits are expected from companies of all stripes. The second half of the financial sector stimulus/bailout fund was approved, for $350 billion or so. An economic stimulus bill for about $800 billion was also approved. There are many pieces of legislation, with impressive sounding names, but what they really could be called is The Throw Large Sums of Money at the Problems and Pray Act.

Fear Happens, and Fear Spreads Until this week, stock markets have gone in one direction in 2009, straight downward. Like a snowball rolling down a hill, this built momentum as the weeks passed. Similarly, fear builds on itself, and panic is contagious. This human behavior, to sell when stocks are low and buy when they are high, is aggravated by the cable 'news' phenomenon. Most cable financial programs are designed to sell ads, by building regular viewers. They do so by providing exciting content—the more sensational, the better. Jim Cramer epitomizes this. Cable financial programs are not designed to be educational or constructive.

Stop the Fear You can break the pattern of investment fear. The first step is to turn off the financial cable programs (read a good book). The second step is to be a good consumer of investment information. Strive to identify sources of information that are impartial and clear. I like Jason Zweig of the Wall Street Journal and Melody Hobson on Good Morning America. Many people like Suze Orman's style, and Michelle Singletary of the Washington Post.

Reason for Hope Our government and the Fed are 'on the job,' working hard to get the US economy growing again. Foreign governments and central banks are also working toward getting their economies back on track. Inflation has hit zero, and oil prices are down dramatically from their 2008 peaks. Interest rates for mortgages have fallen. I am hopeful that house prices stop falling later this year, and I expect that lending (car loans, small business loans, and mortgages for the average homeowner) will become more available as the year progresses.

In the meantime, 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.

The following data, reflecting results through 2/28/2009,
comes from the Wall Street Journal and Morningstar's Advisor Workstation product.

Category	3 Months	Past Year	3-Yr Avg	5-Yr Avg	10-Yr Avg
Money Market, Taxable	+0.22%	+1.73%	+3.58%	+2.87%	+3.00%
Intermediate Term Bond	+2.09%	-6.92%	+0.56%	+1.25%	+4.05%
Intermediate Muni Bond	+4.42%	+3.20%	+2.36%	+2.15%	+3.64%
Large-Cap Blend Stock	-14.89%	-43.36%	-15.41%	-6.66%	-2.68%
Mid-Cap Blend	-11.68%	-44.44%	-16.64%	-6.12%	+1.74%
Small-Cap Blend	-15.53%	-44.20%	-18.58%	-6.56%	+2.95%
International Stock	-13.44%	-50.48%	-15.71%	-3.71%	-1.07%
Real Estate	-22.29%	-57.88%	-25.92%	-9.52%	+2.87%
Natural Resources	-12.04%	-54.11%	-12.49%	+2.76%	+10.09%
Technology	-2.97%	-39.62%	-15.31%	-7.14%	-4.58%
Multi-Cap Growth	NA	-44.30%	-15.21%	-5.68%	NA
Multi-Cap Value	NA	-47.76%	-17.52%	-7.00%	NA
Conservative Allocation	-3.60%	-22.10%	-5.10%	-1.23%	+1.24%