Market Review and Outlook—June 10, 2009

It doesn't get any better than this. The results from the past three months are better, by a factor of two, than the results of any calendar quarter since Mallard began in 1996. Yet this isn't great news. The reason that stocks were able to jump so high so fast is that they began March 2009 from VERY low levels. It is pretty sad that after rising 25 to 40% in the past three months, the one year results for the stock categories listed below remain down, 30 to 50%.

What's New? The main news of the past three months is that the earth kept spinning, and the economy kept chugging along, although at a lower level than a year ago. The nice feature of a market meltdown is that little can go wrong, or at least little can go worse than folks have been fearing. Three months have brought one thing that we lacked in early March, clarity of how March through May would go. The good news is that no further industries, or ultra-large companies blew up. GM and Chrysler are going through bankruptcy, but that is no worse than we feared in February. Jobs continue to be lost, but at no worse a rate than we expected. We still don't know when the economy will hit bottom and when the stock market will sustain a recovery. However, many market analysts feel that the economy will bottom out later this summer, which is three to six months **sooner** than we expected, back in March.

Of Two Minds With stocks down more than 30% in the past year, part of me wants to 'back up the truck' and have clients quickly build their stocks up to target levels. With something like $3 trillion sitting on the sidelines, in cash, when investors decide that it is safe to buy back stocks, this could **dramatically** boost stock prices. However, with stocks up 30% or so just in the past three months, and with the economy structurally much weaker than it has been for several years, another part of me wants to hold on and let the hot market cool down a bit before buying more stock.

Middle Road A planner in Virginia once said, when given two equal choices, he most often decides to make half a mistake. Stocks are both cheap and expensive now; a good case can be made that the economy will grow steadily from here, and a similarly good case can be made that the economy will continue to hit speed bumps. In this environment, I am comfortable rebuilding stock positions, but I favor proceeding cautiously, gradually. If you have 10% less in stocks than your normal long-term target, consider narrowing the gap by 2% now, and again every three months for a year. If you are aggressive, and are willing to buy and close your eyes for a year or two, buy stocks up to your full target allocation now, but recognize that the path will likely continue to be rocky.

The following data, reflecting results through 5/31/2009,
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	+0.09%	+1.32%	+3.35%	+2.86%	+2.94%
Intermediate Term Bond	+5.73%	-0.44%	+2.91%	+2.80%	+4.42%
Intermediate Muni Bond	+2.84%	+2.73%	+3.38%	+3.32%	+3.96%
Large-Cap Blend Stock	+26.49%	-32.23%	-8.37%	-1.72%	-1.05%
Mid-Cap Blend	+30.01%	-33.80%	-9.15%	-0.80%	+3.36%
Small-Cap Blend	+31.39%	-32.24%	-11.13%	-1.15%	+4.71%
International Stock	+34.91%	-37.02%	-8.00%	+2.69%	+1.44%
Real Estate	+38.91%	-47.84%	-17.02%	-2.62%	+5.08%
Natural Resources	+37.47%	-43.76%	-4.74%	+10.20%	+11.15%
Technology	+31.79%	-29.56%	-5.27%	-1.17%	-2.92%
Multi-Cap Growth	NA	-32.82%	-7.70%	-0.80%	NA
Multi-Cap Value	NA	-33.79%	-9.07%	-0.75%	NA
Conservative Allocation	+13.67%	-13.44%	-1.24%	+1.61%	+2.29%