Market Update – October 14, 2009

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Last quarter we suggested that it might just be time to dip a toe back into the equities water and to go ahead and open your 2nd quarter statements. It certainly felt good to see the markets improving, didn't it? Here's a little more good news! We had another quarter of stellar returns as both the stock and bond markets continued to recover. Since the current bear market low on March 9, 2009 the S&P 500 has gained 51.5% through October 2nd, excluding dividends. (source: BTN Research) It goes without saying that looking at your 3rd Quarter statement may be another pleasant experience.

The third quarter of 2009 was positive for stocks and it may have included the end of what history could likely remember as the Great Recession. The S&P 500 gained 14.98% in 3Q 2009 after a 15.22% gain in the second quarter. The Dow just had its best quarter since 4Q 1998! (source: CNBC) Federal rebates and credits did help stimulate home and auto sales and the data stream from the housing sector was mostly positive. Not all was smooth sailing. President Obama's vision of health care reform met with great public and Congressional contention. Watching the nightly news, the average American may have assumed we were still in the midst of the recession; economists, however, saw increasing signals that recovery could be happening.

Don't we all just wish that stocks could behave like this in every quarter? The Dow and S&P 500 Index posted coincidental 14.98% quarterly gains and the NASDAQ beat them both. The DJIA, S&P 500, NASDAQ and Russell 2000 all gained for the second consecutive quarter, and that hadn't happened in two years. (source:CNBC)

% Change	3Q 2009	2Q 2009	Y-T-D
DJIA	+14.98	+11.01	+10.66
NASDAQ	+15.66	+20.05	+34.58
S&P 500	+14.98	+15.22	+17.03
10Yr TIPS Yd	-12.36	+24.48	-31.89

(Source: CNBC.com, ustreas.gov, 9/30/09)
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.
These returns do not include dividends.

Fourth quarter outlook: Euphoria aside for a moment, let's be realistic while looking forward. After its stint in intensive care, the markets and economy are now in a recovery mode. This current journey may be long and subject to disruption from many sources. However, it may also be a profitable one for those who allow logic rather than emotions to govern their decisions.

At the end of the second quarter, a key question was whether the consumer and the business owner would start spending again and back up the rally on Wall Street. At the end of the third quarter, that same question lingers. Some analysts see a shallow U-shaped recovery ahead, others see a W. We know that ten percent of the country is unemployed, not to mention the under-employed; foreclosure rates have stabilized but are still high. While those facts are disturbing, still the indicators of ongoing growth or at least stability do seem to outnumber the negatives lately.

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In other financial planning departments more changes are brewing. As always Washington DC is busy at work tweaking the tax system. According to the Kiplinger Tax Letter, we can expect the following changes: The first time home buyer credit of $8000 will be extended for a few more months, tax-free payouts from IRAs to charity will be extended, required distributions from IRAs will be back for 2010 and the current $3.5million estate tax exemption will apply for 2010. They also report that Congress will keep Social Security checks from dipping in 2010 by blocking higher Medicare Part B premiums. There will be no cost of living increase. Stay tuned for the final outcomes.

Perhaps the silver lining in all this is that before the market chaos, there was a very low savings rate, inappropriate use of credit cards, too much risk in many investment portfolios, and excessive spending on the next, greatest residence. It seemed as though many financial decisions at both the local and national level were being made in a kind of financial fairyland atmosphere. We believe the recent market shakeup has prompted many people to return to basic principles that had been shunted aside: Maximize savings; limit the use of credit cards; keep a substantial emergency fund; know how much risk you can tolerate; diversify investments; don't try to short-cut the way to wealth.

We think it's a safe bet that the easy money in the financial markets has been made and now it is the substance of the economic recovery that will be the greatest determinant of stock market returns. A self-sustaining recovery needs more than just government stimulus and inventory replenishment; it requires a reinforcing cycle of increasing consumer spending and incomes – there's no real evidence of that just yet. In this environment, with so many unpredictable forces in play, let's not be overconfident about anything and retain a healthy respect for risk. Asset allocation and diversification are more important than ever, though neither guarantees a profit nor protects against loss, of course.

It's widely held that money alone cannot make one happy – though we've heard it said that if you have enough money, you can have a key made. But we also think Joe Louis, the famous boxer, had an excellent point: "I don't like money actually, but it quiets my nerves."

As we approach the seasons of Thanksgiving and Holiday Celebrations, we find ourselves grateful for our relationship with you, our valued client, and look forward to continuing to work with you and for you to accomplish your personal and financial goals.

Happy Holidays,

Gloria and Barbara

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