

December 31, 2009

2009 Year End Review

By any measure, 2009 was an amazing year for investors. The stock market, as measured by the S&P 500, gained 26% for the year. This was the second best year of the decade and the eleventh best year in the past fifty years. It is doubtful that many of you reading this would have predicted these results back in March, when we were at the depths of a very painful bear market. In fact, from the market lows in March, the stock market gained over 67% through the end of the year in what has been one of the steepest post bear market rallies in history.

As we have pointed out in the past, market rallies tend to mirror market declines. The intense sell off in the stock market late last year and early this year resulted from a classic run on the bank as panicked investors dumped everything without regard to long term value or realistic expectations. While it was definitely a scary time to be an investor, it is always important to remember that successful investors are those who keep a long term view of the world. Market decline happen, but it is important to be invested during these rallies. The one thing that always proves to be impossible is to try to own stocks when the market is going up and not own stocks when the market is going down.

The economic recession of 2008/2009 will go down as one of the worst since the Great Depression of the 1930's. While the debate about the cause will rage for years, the U.S. economy is once again growing and most measures of economic health are improving. While it is impossible to know what the pace of this recovery will be, it is generally profitable to be an investor during this stage of the economic cycle. It is our hope that future gains will be based on true economic value and profitability and not by pouring money into a new bubble, such as housing, commodities, or gold.

Looking into the new year and making our forecasts for the stock and bond markets is always a challenge, but especially so this year. Stocks are well off their lows, but also well off of their highs of two years ago. We have gained back much of what was lost during the panic, but we now need to see continued economic improvement to see further market gains. While further stock market gains look promising, it will likely be a difficult year for the bond market as interest rates are almost certain to rise as the economy improves. Even without a strengthening economy, interest rates cannot drop from current levels, which are at historical lows.

We wish all of you a happy and prosperous New Year. We also remind you that you can request an updated copy of our Form ADV, which has information about Wabash Capital that is on file with the SEC.

Wabash Capital