

March 31, 2009

A Wild Beginning

If you like volatile stock markets, the first quarter of 2009 was for you. The three month period we just finished saw a bear market and a bull market, all on its own. From its low point on March 9th, the S&P 500 gained more than 20% over the next three weeks, including the fourth best one day return in the last fifty years. March ended the month as one of the best months for the stock market in the last twenty years after starting the month as one of the worst.

An obvious question to ask is whether we have seen the market bottom or is this just another bear market rally that will not hold. Consider that since the market reached an all time high in October of 2007, we have seen three different rallies of at least 15%, including the latest, which is the largest of the three. While short term market prediction is impossible, there are signs that the market is behaving in a more reasonable manner. We are also seeing better, although not great, economic data that suggests the economy is beginning to show some signs of life.

Another positive sign for stocks is the amount of cash being held by investors. Aggregate money market fund balances are at an all time high as a percentage of stock market valuation. Through the first ten weeks of this year, Americans deposited \$246 billion into bank savings accounts, more than they did in all of 2008. Cash always builds toward the end of bear markets as this money is poised to be invested or spent, both of which are good for the economy and the markets.

We are also seeing a huge change in the world wide look of the financial sector. While the U.S. financial sector is obviously going through some major changes, it is not isolated here. In 1999, eleven of the largest twenty financial institutions in the world were based in the U.S. Today, only four of the top twenty are based here. The three largest financial institutions in the world today are Chinese, who did not have any firms in the top fifty a decade ago. This is a truly remarkable trend that will likely continue, especially given the current financial crisis we are experiencing.

While this downturn has been worst than most, investing has always experienced corrections and volatility. It is important to keep focused on your investment goals and not allow the current troubles distract you from your long term objectives. We realize this is sometimes difficult to do. To review your investment goals, please feel free to contact us.

Wabash Capital