

September 30, 2009

Should I Stay or Should I Go

Is now the time to buy stocks that are well off of their highs? Is now the time to take profits out of stocks after a big rally? Many investors have been asking these questions as the stock market has been experiencing a strong rally since early March. The bond market has also rallied as credit quality has improved after the crash of last fall. While it is nice to look at your statements and see higher balances, it means little unless the economy continues to improve and we see improved corporate earnings in the future. We will review the performance of the stock market and the economy and offer our best forecast on what the future holds.

For those who are keeping score, the stock market just experienced its best quarter since 1998 and its best two quarter gain since 1987. The S&P 500 is now up 56% from its low in March, although it's still down 32% from its high in October of 2007. Not surprisingly, the sectors of the market that had been beaten up the worst have experienced the strongest gains during the rally as financial stocks and auto related stocks did well. As we have said before, steep market declines normally give way to steep gains. Time will tell whether we can keep these gains or if more selling is imminent. At this point, we believe it is too early to know what the next twelve months will hold.

On the economic front, it appears that the economy continues to improve, although it remains in a very fragile state. There has been much written about the direction of the recovery: will it be a V-shaped recovery or a U-shaped recovery? Is the worst behind us or is there another leg down? Although there is concern about the increasing unemployment rate, this is always a lagging statistic. Businesses are reluctant to add people until they know the recovery will last. Two concerns for us are the continued economic pessimism that consumers retain; and the high level of debt that the average American has. Until we see some improvement in the average person's balance sheet, this debt will act as a drag on the economy.

It would be a mistake to assume that the danger in the economy and the markets is behind us. While there have been improvements in both, we expect this recovery to be slow in gathering steam and we will likely experience rough spots along the way. It also seems likely that the stock market will experience bumps in the road as investors look for signs that the economy is continuing to improve or whether it will begin to slow once again. Either way, it is important for investors to take the appropriate level of risk so that they can reach their financial objectives. Please feel free to contact us if you would like to review your objectives to ensure that you are properly invested.

Wabash Capital