

Weekly Commentary

April 13, 2009

The Markets

Does August 12, 1982, mean anything to you?

On that day, the S&P 500 index closed at 102, which was about 9% lower than where it closed 10 years earlier, according to data from Yahoo! Finance. To repeat a popular phrase, it was a “lost decade.” However, 10 years later, on August 12, 1992, it was a completely different story. The S&P 500 index closed that day at 418 for a cumulative gain of more than 300%.

Could we be in a similar situation today?

As of last Thursday, the S&P 500 closed at 857, which is roughly 36% lower than where it stood 10 years earlier. That’s an even worse “lost decade” than the 10-year stretch from August 1972 to August 1982. Over the upcoming 10 years, if the S&P 500 repeats its August 12, 1982, to August 12, 1992, performance, we’d end up with the index at more than 3,400 on April 9, 2019.

Things looked bleak in August 1982 just like they look bleak now. Nonetheless, just when investors had metaphorically thrown in the towel back then, the market proceeded to do what it often does best – it fooled just about everybody. It went on an 18-year expansion that was one of the most powerful secular bull markets in history.

While I’m not predicting a 300% gain over the next 10 years, we’re not ruling it out either. Just like few people predicted our “lost decades,” or the 1982–2000 bull market, the next 10 years will likely surprise us, too. Whether that’s a positive or negative surprise, nobody knows. What we do know is that we continue to keep our eyes and minds open to all possibilities and we will do all we can to help you profit from whatever ensues.

Data as of 4/9/09	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	1.7%	-5.2%	-35.7%	-12.9%	-5.6%	-4.4%
DJ Wilshire Global ex US (Foreign Stocks)	0.7	-4.1	-46.0	-14.0	-2.0	-0.9
10-year Treasury Note (Yield Only)	2.9	N/A	3.5	5.0	4.2	5.0
Gold (per ounce)	-2.7	1.2	-4.0	13.8	16.6	12.1
DJ/AIG Commodity Index	-0.5	-3.5	-46.4	-12.6	-5.7	3.5
DJ Equity All REIT TR Index	5.0	-17.1	-50.0	-18.6	-2.2	N/A

Notes: S&P 500, DJ Wilshire Global ex US, Gold, DJ/AIG Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT TR Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, Barron’s, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not available.

As I write to you, the market is now in so-called "earnings season." This is the roughly two-week period when companies start reporting earnings for the past quarter. This should give us a better idea of where things are headed.

Wells Fargo was up 31% last week on news it will earn \$3 billion for the quarter – a record for the bank. Did I miss something? Didn't it just get \$25 billion from the government?

The Dow and S&P 500 stock indexes are up and down like a rollercoaster. The Dow has gone from 6,926 to 8,083 in 30 days, an increase of 16%, but has had a pair of two-day periods where it dropped 5% and 3%, respectively. In my opinion, this isn't the sort of market to place major portions of retirement money that you will need in the next few years; it's simply speculation.

As earnings come out next week, I'll look to see the impact. Once we see a slowdown in earnings contraction, we can look at the price-to-earning (P/E) ratios with more confidence. I want to see P/Es closer to 10 times and yields closer to 5% before I'd feel comfortable considering more money into equity markets.

A few Tax Tips:

Did you know that you can rent out your personal residence up to 2 weeks per year? The IRS classifies the rent as "non-taxable" income. It's can be an incredible deal; you can take advantage of the exemption anywhere. So if you have a nice second home, consider renting it out for two weeks every year. I know people who earn enough money every year to pay for the yearly property taxes and upkeep on their summer homes.

If you do your own taxes, this tip makes filing free this year: Free federal tax filing (and possibly state) if you made less than \$56,000 last year. Go to the IRS website, and in minutes, you will find a list of companies that offer free tax software. And several companies offer freestate filing, too.

If you're not doing your own taxes, please make sure your tax preparer took care of the following new tax break... I've heard stories of people filing early in January missing this next deduction...Did you pay state or local real estate taxes last year? This year, if you don't itemize deductions, you can take an additional standard deduction for real estate taxes – \$500 for singles and \$1,000 for joint filers. This deduction is for 2008 and 2009, and lets you deduct the amount of real estate taxes you paid.

Tax credits are the most powerful tax saving device there is. Here are three. 1.) If your income is low, you must absolutely do this one. It's a new tax credit for contributions to your retirement accounts. It's huge – \$1,000 for individuals and twice that for joint filers. There is an income limit of \$39,750 for heads of households and \$53,000 for joint filers. If you qualify and then put \$2,000 into a retirement account, the IRS gives you a tax credit of \$1,000. This is a dollar for dollar credit, which means it's as if the IRS just funded your retirement account for you. You put up \$1,000, the IRS adds \$1,000, and you have \$2,000 in your account. If your income qualifies, you can easily do this in a ROTH, and you probably should. 2.) Are you going to school but your budget is tight? Or do you have kids in school right now? You may be able to benefit from the Hope credit. This credit essentially makes the first \$1,800 of school free (in 2009 and beyond, the credit goes up to \$2,500 and is inflation-adjusted thereafter). The credit is 40% refundable, so if you pay little or no tax, you still get the money from the government. 3.) Another credit, equal to 20% of your annual tuition is called the Lifetime Learning Credit. It's good for \$2,000 per year for an unlimited number of years. Using this credit can help you get school at 80% of cost. Perhaps your younger family members can benefit for it.

For those over 70 and a half with extra money that you want to make sure goes to your heirs tax-free, don't forget to fill up your ROTH IRA. You can put in \$6,000 a year and any earnings in the future are not taxed to you or your heirs.

Did you lose a spouse within the past two years and sell or are considering selling your house? Surviving spouses get a wonderful tax-break. You get to take the full \$500,000 capital-gain exclusion as if you were still married (normally the exclusion is only \$250,000 for singles). This rule began December 31, 2007. I hope this isn't your case, but if it is, you should at least know you can keep the money that you and your spouse worked so hard to amass. Don't let it go to the IRS.

Best regards,

Tony Hartman

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* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

* Gold represents the London afternoon gold price fix as reported by www.usagold.com.

* The DJ/AIG Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.

* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

* The DJ Equity All REIT TR Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.

* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

* Past performance does not guarantee future results.

* Consult your financial professional before making any investment decision.

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