

Weekly Commentary May 11, 2009

The Markets

Would you agree that the stock market has been volatile in the last six months?

As you may have guessed, that's a bit of a trick question. Most people would say that, yes, the stock market has been very volatile since early November 2008. For example, just from November 7, 2008 to November 20, 2008, the S&P 500 index dropped 19%. It then rallied 24% by January 6, 2009. But, that was just a tease. Between January 6 and March 9, the S&P 500 index dropped a frightful 28%. And, just when people thought the financial system was coming to an end, the index turned around and proceeded to rise a whopping 37% from the March 9 low to last Friday, according to Yahoo! Finance.

It's enough to make your head spin.

But, let's assume for a moment that you went into hibernation for the past six months and slept right through this volatility. Would you wake up happy or sad about your portfolio? Well, if your portfolio performed similar to the S&P 500 index, then you'd wake up essentially the same as you went to bed, meaning, there was no net change in your portfolio. Surprisingly, from November 7, 2008 to May 8, 2009, the S&P 500 index moved less than 1%. That's right, after netting the 19% drop, the 24% gain, the 28% drop, and the 37% gain, the index is essentially flat. Of course there were substantial losses prior to November 7, 2008.

One of the keys to being a successful investor is to get neither too depressed when the market is down nor too euphoric when the market is up. Checking your portfolio on a daily basis can lead to a daily dizzy spell while checking it on a less frequent basis may help keep you on an even keel.

Data as of 5/8/09	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	5.9%	2.9%	-33.1%	-11.1%	-3.1%	-3.6%
DJ Global ex US (Foreign Stocks)	7.5	8.8	-40.8	-12.2	2.7	0.2
10-year Treasury Note (Yield Only)	3.3	N/A	3.8	5.1	4.8	5.5
Gold (per ounce)	2.5	4.3	3.4	10.3	18.2	12.6
DJ/AIG Commodity Index	5.9	3.1	-43.6	-12.1	-4.0	3.8
DJ Equity All REIT TR Index	9.6	-5.9	-45.2	-15.7	1.4	N/A

Notes: S&P 500, DJ 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.

WHICH LETTER OF THE ALPHABET will an economic recovery most resemble? Will it look like a V, U, L, or W? Let's look at each scenario.

A V-shaped recovery would suggest a sharp drop followed by a quick recovery. The July 1990 to March 1991 recession is an example of this.

A U-shaped recovery would suggest a drop followed by a slow but steady recovery. The July 1981 to November 1982 recession fits this description.

An L-shaped recovery would suggest a drop followed by a long period of subpar growth. Japan's experience since its 1989 stock market high is the poster child for this unfortunate predicament.

And then there's the W-shaped recovery. This occurs when you have back-to-back recessions. The U.S. experienced this in 1980 to 1982 when we had two recessions that were separated by just 12 months.

Veteran money manager Jeremy Grantham thinks we might be in for what he calls a "VL" recovery. He envisions a situation "in which the stimulus causes a fairly quick but superficial recovery, followed by a second decline, followed in turn by a long, drawn-out period of sub-normal growth as the basic underlying economic and financial problems are corrected." And, if you had the opportunity to watch 60 Minutes last night, you may agree with the VL scenario. The 60 minutes program outlined Wave 2 of the wall of foreclosures. Wave 1 which we have experienced, was primarily driven by defaults on sub-prime mortgages. Wave 2 they expect to be driven by Alt A and Option ARM mortgage resets starting in 2010. The size of Wave 2 looks to be larger than Wave 1. If you missed 60 Minutes, you can see a recap at:

<http://www.cbsnews.com/video/watch/?id=4668112n>

The good news is that the entire collapse of the U.S. financial system, which seemed like a possibility (albeit a small one) a few months ago, now seems to be less unlikely. The recent recovery of the banking stocks and the stock market as a whole suggests investors are no longer currently planning for a doomsday scenario. Now we have to wait and see which "letter of the alphabet" recovery unfolds and what that means for the financial markets. Favor wealth strategies that: 1.) will benefit from a rise, 2.) are NOT correlated to the down side of stock market, 3.) protect your seed corn.

Best regards,

Tony Hartman

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

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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.

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