



Market Commentary October 2009

The Dow at 10,000 (again), Housing, U,V, or W, Buy & Hold Investing

As you all know, the Dow Jones Industrial Average hit 10,000 again last month. This is really nothing new. The Dow has hit this level many times. The question is: "Is this a base for a bull run or a top for a bear market retrenchment?" Most of you know that I am in the "Top Camp." Sure GDP in the 3rd quarter was up 3.5% but is this the start of a trend or a Government sponsored blip in the old trend? Put another way, will Q3 2009 be identified with the start of the upward slanting leg of a V shaped recovery or the middle leg of a W? My guess is that the economy is in the center of a U but we will see.

My advice is to turn off CNBC and put down the Wall Street Journal. Then ask yourself if things are getting better. Are there less for sale signs in your neighborhood? Are your friends finding GOOD jobs? Do you feel more confident about your financial wellbeing? If the answers are YES, you might be willing to go out and buy a new car WITHOUT a Government subsidy or you might be sitting at home make a huge list of Christmas presents that you plan on buying this year. If the answer is NO, you and the rest of America will probably continue to keep the hatches battened down and your wallet locked in the safe. Considering the continued INCREASE in home foreclosure rates, the dire unemployment numbers and Obama's jobs forecast, I don't see people making large purchases or going on a credit card led shopping spree this Holiday Season. Americans were burnt pretty badly last year and, although the blister has gone away, the scar is still painful.

Why does the stock market care about all of this? The market is obviously in a V shaped recovery even if the economy is not! The reason to ponder the above questions is that the current disconnect cannot last. Either the market is right and the economy is on the verge of a V shaped recovery or the market too optimistic and the economy is flat lining (U shaped) and the market will look more like a W when reality catches up to CNBC.

My final discussion point for this month is the investment strategy known as Buy & Hold. First off, I am not a big trader. I believe that the only people making money by day trading are brokers and, sometimes, the IRS. However, I believe that the Buy & Hold mentality is flawed as well. The argument goes that if you buy “quality stocks” and hold them for the long-term, you will make money. After all, that is what Warren Buffett does. That may be true if you are as smart as Warren Buffett and if you pick a definition of the phrase “long term” that corresponds with your argument. Since data can be manipulated, I chose the most exciting headline for last month to dictate my timeline – Dow 10,000. The first time the Dow hit 10,000 was March of 1999. As you can see on the chart below, the total return for S&P 500 Index (I used the S&P 500 because it is more commonly invested in relative to the 30 stocks that make up the Dow Jones Industrial Average) from March 1999 to September 2009 is 2.7859%. That’s not the average annual return. That is the TOTAL RETURN including dividends for 127 months! So during that time, your \$100 investment in the S&P grew to \$102.79. Although inflation has been tame during the past decade, it beat the pants of your Buy & Hold strategy so you actually have less buying power than when you started! This, of course, doesn’t mean that you would have beat the market by day trading. But it does suggest that a disciplined approach, altering your tactical asset allocation based on current valuations and market expectations may increase your chances of increasing your purchasing power.

SPX Index TRA Index TRA
 Hit # <PAGE> for price, dividend, and total return tables.
Total Return Analysis Page 1/10

2/26/99 - 9/30/09	Period M Monthly	S&P 500 INDEX	in USD
2 Close	Divs 1 Gross	Show Grid Y Yes	127 Mo. Holding Period
Returns	Holding Per	Annual Eq	Prices
Simple Price Appreciation	-14.6366 %	-1.4819 %	FIRST 1238.33 on 02/26/99
Gross divs reinvested into index	2.7859 %	.2596 %	LAST 1057.08 on 09/30/09
Divs reinv at 0.3600	3.3452 %	.3109 %	HIGH 1549.38 on 10/31/07
			LOW 735.09 on 02/27/09
			AVE 1201.62 (Close)

