

March 24, 2009 – The Roller Coaster of 2009

“What the hell is going on out here?” Those are the words of the great Vince Lombardi during a football game when he was coach of the Green Bay Packers. If Coach Lombardi were around today - watching the stock market moves of 2009 and the incredible spending our government is doing to prevent a financial system collapse - he would likely repeat this classic phrase from the 1960’s.

After the worst start to a year in stock market history, -25% through March 9th, the stock market staged a huge rebound the last twelve days by rallying 22% off the most recent bear market low. The S&P 500 is now down 9% in 2009. To review the affect volatility has on compounded returns, go to www.davefulkerson.net > Newsletter Archive > January 2009.

News and emotion are driving the stock market. Remember when the stock market went virtually straight down in February and early March? There were no counter trend bounces. Investors were selling at virtually any price and fear of *loss* was the dominant emotion. The opposite is happening now as investors are buying (and short covering) at any price. There appears to be no rhyme or reason...just unrelenting buying. Fear of “*missing out*” is now the dominant emotion.

I rely heavily on technical analysis (chart reading) to make investment decisions for my clients. Charts are less meaningful in emotionally driven markets when news of *another* trillion dollar government program to save the banking system is released. The S&P500 just blew through *resistance* at 800 yesterday during the 7% rally. When gov’t plays such a big role, we can’t trust the charts as much.

Let’s now look at the amount of money the government is throwing at the crises. It is difficult to keep up with all the trillion dollar bailout packages, as they seemingly can create money out of thin air. A trillion here, a trillion there and pretty soon you’re talking about real money! The national debt is now up to \$11 Trillion...that is twelve zeros folks! Interest alone will cost about ½ trillion in ‘09.

When do we reach the point of no return? What happens if China and Japan - the biggest buyers of our debt - decide not to lend us money anymore? What are the unintended consequences of printing and borrowing all this money? It appears, higher taxes and runaway inflation are clearly in our future. Are we headed towards what happened in Japan after the real estate market and financial system collapsed in the 80’s? The lost two decades. 20 years later and the Tokyo stock exchange is still down 75% from the peak in ‘89. Does anyone really know what the h_ _ _ is going on out here? (see Lombardi quote).

Nobody knew what stocks were worth on the way down and they do not know on the way up as there is little earnings clarity. You do not want to step in front of this train. Run through a list of the biggest single-day gains in history and one result becomes clear: the vast majority of the biggest up days have occurred during bear markets. This gets investors excited, only to see the market go on to make new lows in the months ahead. This is why we are keeping position sizes small and holding high levels of cash and stable securities.

Buy and hold is dead until the next secular bull market begins...my guess in 5 to 10 years. It is my assessment, investing based on a one-way directional bet on the stock market in this environment is just not prudent or rational. Money management systems that generate returns in markets similar to Japan’s lost 20 years are likely required in the years ahead. Contact me if you would like to see a solid money management system to help navigate us through these difficult times.

All information, data and contents are obtained from sources believed to be correct but reliability cannot be guaranteed. Past performance is not indicative of or a guarantee of future performance. Readers of these comments should not take action based on information contained. Comments could pertain to time periods or to trends which are not expected to persist, or could refer to actions not commensurate with other individual’s level of acceptable risk.