

Two Years After: Investors Put Market ‘Meltdown’ Behind Them

Two years following the fall of Lehman Brothers Holdings Inc., financial markets have seemingly shrugged off memories of the firm’s bankruptcy, as well as other unhappy news including – but by no means limited to – the bailouts of Bear Stearns and AIG, the government takeovers of Fannie Mae and Freddie Mac, and the sale of Merrill Lynch to Bank of America.

Perhaps fortunately, the infamous anniversary went nearly unnoticed by the mainstream media. Instead, investors seemed to be reacting primarily to the news of the day – from increases in business inventories and retail sales to a decrease in the U.S. trade gap.

In contrast, on September 15, 2008, the day Lehman announced it was filing for bankruptcy, the Dow Jones Industrial Average dropped 504 points to 10,917.51, taking with it about \$700 billion in market value.

In mid-September of this year, despite several earlier dips below 10,000, the index remained above that key psychological floor. In addition, the yield on the benchmark 10-year U.S. Treasury note recently has shown some signs of strengthening, hovering around 2.75% after hitting 2.42% a few weeks ago. Nevertheless, those yields are not far from the record low of 2.04% set in December 2008. Remember, as yields decline, bond prices rise.

The following chart provides a sampling of stock prices and bond yields on the day of the Lehman announcement and on the two subsequent anniversaries.

Level	9/14/10 Close	9/15/09 Close	9/15/08 Close
Dow Jones Industrial Average	10,526.49	9,683.41	10,917.51
NASDAQ Composite Index	2,289.77	2,102.64	2,179.91
Standard & Poor’s 500 Index	1,121.10	1,052.63	1,192.70
	9/13/10 Close	9/15/09 Close	9/15/08 Close
Barclays Capital U.S. Aggregate Index	2.57	3.76	4.70
10 Year Treasury Constant Maturity (Yield)	2.74	3.47	3.47
Barclays Capital Municipal Bond Index	2.10	2.73	3.37

Recently, the Federal Reserve has been making large-scale purchases

of Treasury notes in an effort to maintain interest rates at their current low levels and boost the economy. Although the central bank has signaled that its current monetary policy will continue, that resolution could be tested when the Federal Open Market Committee meets on September 21.

Like many U.S. economists, the Organization for Economic Cooperation and Development (OECD) is guardedly optimistic the Fed and other central banks will prevail, and that another global recession will not occur. However, its expectations are modest. The OECD looks for the Group of Seven industrialized countries (the United States, Britain, Canada, France, Germany, Italy and Japan) to grow by only about 1.5% on an annualized basis in the second half of 2010.

Thus, while the economic recovery remains lackluster, it at least looks likely to remain in place.

As 2010 draws to an end, and the ever-changing economic environment continues to affect the financial markets, you may wish to consider repositioning your portfolio. I'd be happy to review your current holdings with you. Just give me a call.

Investing involves risk, and investors may incur a profit or a loss. Past performance is not an indication of future results. Investors cannot invest directly in an index. The Dow Jones Industrial Average is an unmanaged index of 30 widely held stocks. The NASDAQ Composite Index is an unmanaged index of all common stocks listed on the NASDAQ National Stock Market. The S&P 500 is an unmanaged index of 500 widely held stocks. The Barclays Capital U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

Barclays Capital Municipal Bond Index consists of a broad selection of investment- grade general obligation and revenue bonds of maturities ranging from one year to 30 years. It is an unmanaged index representative of the tax-exempt bond market. The index is made up of all investment-grade municipal bonds issued after 12/ 31/ 90 having a remaining maturity of at least one year.

The 10-Year Treasury Constant Maturity data is from the St Louis Fed and the U.S. Department of the Treasury. It represents the average yield of a range of Treasury securities, all adjusted to the equivalent of a 10-year maturity. Yields on Treasury securities at constant maturity are determined by the U.S. Treasury from the daily yield curve.