



# Investor's Quarterly

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## Unprecedented

by Chanley M. Christman

There is no doubt that the economic times we are living in will go down in history as extreme. With stocks, bonds, commodities and real estate all suffering significant losses in 2008, cash/money market or CD's turned out to be the only places to hide. Volatility has been incredibly high and investor sentiment is near all time lows. The current recession is already 15 months old (the average of the last 8 recessions lasted 11 months) and will go down as longest and deepest since 1981 – 1982, quite possibly the worst recession since 1973-1974.

The current environment, both economic and investing, has been described over and over as unprecedented. Recently, a well respected Wall Street analyst proclaimed "if I hear the

word unprecedented one more time I think I am going to throw up". So, I thought it would be good to review just how much things have changed over the last 4 months (120 days) and, allow you to decide if the times we are living in are truly unprecedented.

- 4 Months ago the stock market capitalization of the S&P 500 was \$10.9 trillion. As of January 12<sup>th</sup>, the market capitalization of the stock index had fallen to \$7.7 trillion, a loss of \$3.2 trillion. By comparison, the US government spent \$3.0 trillion for the entire 2008 fiscal year.
- For the last 21 years (7,626 days), thru 9/6/06, the S&P 500 had produced 26 days with a gain or loss of at least 4%. In the last 4

months, the S&P 500 has had 27 days with a gain or loss of at least 4%.



- 4 months ago the yield on the 10-year Treasury note was 3.69%. As of January 12<sup>th</sup>, the yield on the 10 year note was 2.31%, a drop of more than 1%. The last time the yield on the 10 year note changed

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## IQ Trivia: That's *Investor's Quarterly* Trivia



Be the first to call or email with the correct answer and win a prize!

Three of the first five U.S. Presidents died on the 4<sup>th</sup> of July. Who were they?

Last newsletter we asked IQ readers to name the left-handed Presidents. They were: Garfield, Hoover, Truman, Ford, Bush(41), and Clinton. Some historians debate that Reagan was naturally left-handed but was switched by early teachers.

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(either up or down) by more than 1% over the course of a calendar year was 2002.

- 4 months ago the unemployment rate in the US was 6.1% and the number of idled workers nationwide was 9.4 million. Today the unemployment rate is 7.2% and the number of out-of-work Americans is 10.9 million.
- 4 months ago the nationwide average price of a gallon of gasoline was \$3.67. The average cost for a gallon of gasoline is currently \$1.89, down \$1.78 or 48.5% in the last 120 days.
- 4 months ago the price of oil was \$106.23 a barrel. The price of a barrel of oil closed January 12<sup>th</sup> at \$37.60, down \$68.63 or 64.6%.
- 4 months ago Barack Obama was the junior senator from Illinois.

The S & P 500 is an unmanaged index of 500 widely held stocks that's generally considered representative of the U.S. stock market. Inclusion of the indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

## Recession or Depression

By Michael G. Sparks, CFP®

The current recession is 15 months old with the average of the last 8 recessions lasting 11 months. We are hearing many talking heads in the media comparing the current economy to the Great Depression. Although times are tough, it is our belief that comparing current times to the Great Depression is mainly a scare tactic to get more readers or viewers. So, I thought I would take an article I saw written by a Wall Street market strategist back in November describing why this is NOT the Great Depression.

“This is not the 1930's all over again. The government and the central banks are not sitting idly by as banks fail this time around. We have automatic stabilizers in place like welfare and unemployment insurance. Back in the 1930's, 40% of Americans lived in rural areas – a dust bowl today wouldn't exactly have the same impact on today's highly urban economy. Today's labor market is far more flexible and productive. Back in the 30's, GDP plunged 27%, real private investment collapsed 87%, consumer spending contracted by 41%, industrial production plunged 54%, personal income



fell 25%, the unemployment rate soared to 30% (currently 7.2%), half of the nation's homeowners defaulted (not 10%), and 10,000 banks failed; and as over-saturated as we may be today, we don't have that degree of excess capacity in the financial sector. Not that we are trying to sugar-coat the situation, but we need to put the current situation, which is an outlier, into perspective. It may be something more than just a garden variety recession, but it is not the Great Depression.”

## Factoid of the Quarter

Recently the inflation rate of Zimbabwe reached 231 million percent. In other words, if you had saved \$1 million Zimbabwean dollars on Monday, by Tuesday it was worth \$1.58. (Source: Philip Yancey in Christianity Today).

## 2009 Required Minimum Distributions

While most of the news in the market recently has been difficult to stomach, one good story to come along is the suspension of RMDs for 2009. For those not there yet, RMDs are mandatory distributions from IRAs for those who are age 70 ½ or above. Due to market conditions, the U.S. Treasury announced (after Congress passed and President Bush signed) that require minimum distributions would not be mandated for 2009. While RMDs do not apply to everyone, they do impact a good number of our clients. Within this group, some may need to continue taking money out of their accounts to fund their retirement so this will not change. But for some who take distributions solely because you are being forced, you will receive a one-year reprieve. We think that's great!



## What Happened With Our Radio Presence

Several clients have asked recently why they don't hear us on the radio anymore. Let us begin with a little background. About 10 years ago, Mark Pierce was invited to do a weekly show called Money Talk. Shortly after this began we were also asked to do several market commentaries throughout the day – this was a service that the radio station had been paying for via a syndicated feed. The thinking went like this: If PFP would do the commentaries, WMAN would not pay for a service and PFP would receive free radio time.

Fast forward to earlier this year and Mark ended his time with the radio show due to his career change and other time commitments. At around the same time, the radio station was approached by a firm who offered to pay advertising for the slot that had been provided for us at no charge. Thus, our radio voice disappeared. We understand the perspective of WMAN and are very appreciative of our working relationship over the years. So, if you want to hear our voice, we will need to talk on the phone or in-person. Hope it's soon.

## Just For Fun

Young Chuck moved to Texas and bought a donkey from a farmer for \$100.00. The farmer agreed to deliver the donkey the next day. The next day he drove up and said, 'Sorry son, but I have some bad news, the donkey died.' Chuck replied, 'Well, then just give me my money back.' The farmer said, 'Can't do that. I went and spent it already.'

Chuck said, 'OK, then, just bring me the dead donkey.' The farmer asked, 'What ya gonna do with him?' Chuck said, 'I'm going to raffle him off.' The farmer said 'You can't raffle off a dead donkey!'

Chuck said, 'Sure I can Watch me. I just won't tell anybody he's dead.' A month later, the farmer met up with Chuck and asked, 'What happened with that dead donkey?' Chuck said, 'I raffled him off. I sold 500 tickets at two dollars apiece and made a profit of \$898.00.' The farmer said, 'Didn't anyone complain?'



## Volatility Reigns

Over the past several months the list of surprises and disappointments is a long one. Volatility is an issue we would like to discuss and offer a little perspective. In less than two months we experienced 11 of the 20 most volatile days the Dow Jones has seen since 1980. Yes, with 29 years of market action we have just seen more than half of the most volatile days in less than two months. Please note, this is in terms of percentage moves – not point moves. If we look at point moves, we have experienced four of the five biggest moves. Clearly, a rough time! Not to suggest we are completely out of the woods but the most recent of these days was December 1<sup>st</sup>.

*Please feel free to forward this newsletter to family, friends or colleagues. If you would like us to add them to the list, please send us an email or call the office.*



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