

## **Review for 2009 and 2010 Future Outlook**

### **Stocks hit a 12-year low followed by a tremendous rally**

For many investors, 2009 felt like being trapped on a runaway rollercoaster—with no brakes and no seat belt. The year started with serious issues that threatened the viability of our financial system, with some people even predicting another 1930's style depression.

### **A remarkable recovery in 2009**

The year did not start off well and by March, the Dow Jones Industrial Average fell 25% to a 12-year low. At the Dow's low point on March 9<sup>th</sup>, it was down an astounding 53% from its all time high in October 2007. Due to unprecedented rescue efforts by governments around the globe, the financial markets staged an amazing recovery in 2009.

After stocks hit their low point on March 9<sup>th</sup>, the Dow staged a spectacular rally to finish the year up 18.8%. Even the broader S&P 500 stock index rose an impressive 25% for 2009. The technology-heavy NASDAQ Composite index rallied nine of the last ten months of the year to finish up 43% and rose 79% from the lows reached on March 9<sup>th</sup>. (Despite this impressive comeback, the NASDAQ indicator is still off 55% from its all time dot-com peak reached in March 2000—now commonly called the technology bubble.)

### **March 2009 was the turning point**

The turning point was some unexpected news from several U.S. banks and U.S. Government officials. March signaled a change of expectations when several major banks indicated improved profits, the U.S Federal Reserve and the U.S. Treasury aggressively addressed fiscal issues, and a U.S. Government report indicated that real estate might be stabilizing. As we stated once before, 'If you are expecting a major snow storm and all you get is rain, then it can feel like a victory.' Stocks and bonds rallied when investors sensed the situation was not getting worse.

## **We called it correctly**

We think we got it right in April 2009. In our 1<sup>st</sup> quarter newsletter (before March was considered the low point) we offered a bold opinion: “Predicting the stock market is very tricky. Last year we had a few false starts that led to painful sell offs, however, we are now ready to take a shot at calling the bottom.”

## **What will happen when the stimulus ends?**

As we’ve mentioned in previous newsletters, the economy (and our entire financial system) can be viewed as a very sick patient. The U.S. Government is like a team of doctors caring for the patient. If you’ve ever taken medication to treat an illness you know that sometimes the treatment makes you ‘feel’ better—but as soon as you stop the treatment, the illness or pain can come back.

Some people think the markets will decline when the stimulus ends—while others say the economy has healed enough to stand on its own. Luckily, the stimulus programs do not all end at the same time and some of them will be phased out gradually. We think there are real signs of improvement—but any long-term recovery must include job creation too.

## **Bond markets recover**

After the collapse of Lehman Brothers in September 2008, the credit markets were very unstable. Prices of corporate, municipal and mortgage backed bonds fell to historic lows as investors sought the safety of U.S. Government bonds. Bonds began to recover in March with evidence that the worst of the crisis might be in the rear view mirror.

## **Foreign stocks roar back**

World stock markets recovered much quicker and generally stronger than their U.S. counterparts. Emerging markets were the best performers with Brazil, Russia, India and China having gains ranging from 80% to 129%. The Dow Jones World Index (which excludes the U.S.) rose 37%.

## **Real estate starts to stabilize**

Real estate was the initial spark that started the global downturn in 2008. The past year saw some real progress in a housing recovery—but partly due to government programs that are due to be phased out. On the bright side, home prices actually started to rise in 2009 as measured by the S&P/Case-Shiller Home Price Index.

## **Our outlook for 2010 – continued improvement**

Economic recovery: We are confident that the recovery will continue to take hold and that employment will improve soon. Employment tends to be a lagging indicator that typically improves after the start of a recovery.

Earnings: We anticipate that corporate earnings will continue to improve. Earnings gains last year came mostly from cost cutting and layoffs. This year we expect to see more top-line revenue growth.

Interest rates: We believe the Federal Reserve will not change its policy in the near term. However, at some point rates will go up and we are very mindful of the impact this could present.

### **Converting to a Roth IRA in 2010 – A unique opportunity**

One of the best retirement saving plans is the Roth IRA. Since you've already paid taxes on the money going in, you don't pay taxes on accumulated gains when you take the money out. However, an earnings cap on anyone wanting to convert or contribute to a Roth IRA has kept this account out of reach for many.

1. Eligibility: Now you are eligible to convert regardless of income. If you have not considered a Roth conversion due to the income limitations, now you can.
2. Tax choices: Taxes are due at normal income rates when you convert your Traditional IRA to a Roth. In 2010 only, you have a choice of paying one lump sum or spreading them over two years.
3. Considerations: You should consider your current and future tax bracket as well as your retirement time horizon.
4. Seek professional assistance: You should consider all the facts before making a decision. We can help. Please contact us for assistance.

### **We are here for you**

We look forward to continue serving your investment management and financial planning needs. Please contact us if you have any questions, if you'd like to schedule an account review or learn more about our comprehensive financial planning services.