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MARCH MARKET COMMENTARY

By Tom Crow

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Index	Month End	Gain (Loss) by Period			
		Month	Most Recent Quarter	Year-to-Date	Trailing Twelve Months
Dow Industrials	12,320	0.8%	6.4%	6.4%	13.5%
S&P 500	1,326	(0.1%)	5.4%	5.4%	13.4%
Nasdaq	2,781	(0.04%)	4.8%	4.8%	16.0%

The markets ended March about where they started it, but that couldn't keep them from turning in the strongest first quarter since 1998. There still exists some indication things could continue higher, but correlation is getting quite high. Under these conditions, we start to see a "herd mentality" causing almost all stocks to follow the indices. This is fine as long as folks are buying, but as soon as one big fund or brokerage starts selling, or we get some bad news things can drop in a hurry.

The employment numbers for March continued to scratch their way into more-positive territory. Non-farm payrolls increased by 216,000, and the unemployment rate dropped 0.1% to 8.8% from 8.9%. Small upward revisions totaling 5,000 to January and February numbers helped a little.

There are a couple of details that need to be fleshed out a bit further. First, the participation rate did not change. That means about as many folks left the workforce as came into it. That is still not a growth indicator. Second, the number of workers forced to work part-time because they could not find full-time work or they were pushed to part-time due to lack of work increased.

Several folks have asked recently why employment isn't improving when all they hear about on the news is increasing corporate profits. Several of my ideas, and a few others were summarized by Kevin Hall in a recent Miami Herald article. Corporations are still uncertain about the future and they, like investors, don't take as much risk when the future is unclear. They have been able to increase profits due to cost savings and increased productivity rather than increased sales. They have had access to sources of very-inexpensive money for capital improvements and have chosen to invest that in productivity-enhancing measures rather than new employees.

Also, the weaker dollar has helped corporations who sell goods and services in other countries by making them more-competitive. Their increased profits are not coming from domestic sales. Further, high oil and gas prices are once again putting the pinch on consumers. Protests in the middle-east and north-Africa are not giving any indication that situation is likely to improve any time soon. The devastating impact of the earthquakes, tsunami and resulting nuclear crisis in Japan, the world's third-largest economy is just starting to be felt here at home and nobody can predict how long that situation will take to work itself out. Some of the US auto and semiconductor/computer manufacturers have been the first to suffer as Japan has not been able to export critical parts.

While I'm not after Letterman's job, I do have two "Top Ten" lists for you this month. Actually, they're more like "Bottom Ten" lists because being on them is not a desirable thing. I'm going to put them side-by-side to save space.

States with highest debt per resident

10. Oregon	\$1,859
9. Rhode Island	\$2,127
8. Washington	\$2,226
7. California	\$2,362
6. Delaware	\$2,489
5. New York	\$3,135
4. New Jersey	\$3,669
3. Hawaii	\$3,996
2. Massachusetts	\$4,606
1. Connecticut	\$4,859

Cities with biggest decline in housing prices

10. Miami, FL	- 4.73%
9. Charlotte, NC	- 4.83%
8. Seattle, WA	- 6.67%
7. Atlanta, GA	- 6.96%
6. Tampa, FL	- 6.99%
5. Chicago, IL	- 7.46%
4. Minneapolis, MN	- 7.62%
3. Portland, OR	- 7.80%
2. Detroit, MI	- 8.10%
1. Phoenix, AZ	- 9.14%

While the national or federal debt is still hovering around \$128,000 per US taxpayer, the recent budget battles in various states got me wondering just how bad their situations are. Then, this week I ran across an article that ranked the individual states by the amount of debt they carried per resident. New Mexico, which usually manages to find itself at the “wrong” end of just about every list, came in 16th at \$1,398/person (data is courtesy of Moody’s Investor Services.)

The list on the right illustrates another continuing drag on the US economy: home prices. The Case-Shiller index for home values in January showed that 18 of the top-20 US cities suffered home-price declines. The list shows the 10 cities that saw the largest year-over-year decline from January 2010 to January 2011.

Is the Fed quietly raising rates? Bond Manager Dave Pequet says the Fed has taken the first steps toward rate increases and slid it quietly by those fixated on the Fed funds rate. How did they do this? On March 18th they started selling some of the \$142 billion portfolio of mortgage-backed securities purchased as part of the bailout. Then, on March 23rd, they launched a reverse-repurchase program which will take cash out of the banking system.

In June, the Fed’s second Quantitative Easing program will come to an end, taking about \$100 billion a month, or about 70% of the demand for US Treasuries out of the system. Demand drops, supply increases, prices drop, and yields rise...all without touching the fed funds rate, which is not likely to change for at least the next six months.

A few other lowlights from March’s economic calendar...consumer confidence fell sharply, disposable incomes fell in February, durable goods orders dropped and new-home sales tumbled almost 17% in February while existing-home sales also fell 9.6%. Producer prices jumped 1.6%, driven mostly by higher food costs.

A closing comment from the contrarian corner...I heard a local investment advisor on the radio this week really hitting the “doom and gloom” hard. That is his usual rant, so I didn’t think much of it, until I heard him say in one breath that it was time to get out of bonds because Bill Gross, the biggest and smartest bond investor in the world at PIMCO had sold all of his. Then, in the next breath he said we should all be buying gold.

Stay with me here...all we hear on the radio lately is the gold “experts” telling us to buy gold. What does that mean? If you are buying, it means they are selling! If we’re supposed to follow bond expert, Bill Gross because he’s selling his bonds, why are we supposed to ignore the gold experts who are selling their gold? I seem to remember six months before the real-estate crash all we heard on the radio was ad after ad for “how to get rich in real estate” seminars too.

Has gold topped out? Probably not because of continued uncertainty and emotion, but the folks who own a lot of it know it is high. They also know the gold market, just like every other market is cyclical and it will drop again, someday. The gold experts, just like the stock, bond and real-estate pros are not emotional. They’re in it to make money. They sell into the rallies and buy on pullbacks. At the very top, they’d like to be completely out, and at the bottom, they want to be “all in.” If that’s what the “smart” money does, what does that make those on the other side of those trades?

Until next month...take care.