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FEBRUARY 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	10,325	2.6%	(0.2%)	(1.0%)	46.2%
S&P 500	1,104	2.9%	0.8%	(1.0%)	50.2%
Nasdaq	2,238	4.2%	4.4%	(1.4%)	62.5%

The numbers in the table above tell an interesting story. The month was not bad. In fact, a few months in a row like February make for a very nice rally. The markets mounted a recovery in February that almost got them back to where they finished the year. That shows up in the Most Recent Quarter and Year-to-date column's entries.

The Trailing Twelve Month data shows us the huge impact of the lows that were hit one year ago, and just how far we've come off of them. However, if we extend that to look at trailing 24-month data, we'll see a much different story. Over the past two years, the Nasdaq is just above break-even and the Dow and the S&P 500 are showing losses of 16% and 17%. I always try and look at the data from multiple, historical frames of reference.

So, where are we...right now? Several indicators, including our forecast show things are likely to be mildly positive over the next few weeks. Volatility is falling into a range where good things happen historically. One thing lacking is volume, which remains low enough that it seems the big, institutional money is still on the sidelines.

We are seeing a small increase in the number of buy signals, but the simple fact that we've come up as far as we have in the past twelve months without a significant (10%) correction, is keeping the analytical software from getting too excited about many stocks.

Keep in mind that we also look at a company's fundamentals before we make a purchase in all but the most-aggressive approaches. While corporate earnings are finally showing signs of improvement, most stock prices have risen such that many are again trading well above historical price-to-earnings (P/E) ratios, which is what we affectionately refer to as a "bubble."

Please, refer to the Nasdaq ten years ago today, when it closed above 5,000 if you need a refresher course on what is likely to happen under these conditions. We are still more than 50% below that all-time high.

The problem with bubbles, whether they be in stocks, bonds, currencies, gold, other commodities or real-estate is knowing just how far they'll stretch before bursting. Somewhere, dear readers, in that fuzzy, grey area between under- and over-valued is where investing turns into speculation and eventually gambling, where the odds definitely favor the house.

Friday's unemployment numbers indicated a small improvement, if once again, losing fewer jobs than we thought we would is an improvement. However, the impact of last month's ferocious winter storms, not to mention the soon-to-dry-up stimulus spending is enough to cast significant doubt on any projections at this point. Employment is a lagging indicator and does not change very quickly. I'm more than happy to let a few more months pass before I'm ready to claim we're in full recovery mode.

I'll wrap things up this month by sharing a couple of headlines that caught my attention the past few days.

First, from FinancialPlanning.com, "Could New Rules on Advice Hamper Broker-Dealers?" with an opening line that reads, "Broker-dealers can offer financial advice that isn't in the best interest of their clients, and the

insurance industry wants to keep it that way.” This article presented a decent summary of the debate that’s been going on for years in the financial services industry, though quite obviously biased from a fiduciary perspective, which is probably why I like it.

Basically, as it stands now, brokers, insurance and annuity salespeople who receive sales commissions have only to prove “suitability” when it comes to an investment recommendation. Unfortunately, suitability doesn’t go much beyond having the money to afford it, and that can include margin. We like to call it an obvious conflict of interest.

Fiduciaries like us have to prove at all times that every recommendation we make or act upon demonstrates the client’s best interest was placed ahead of our own. So how do Madoff and other fee-based advisors get away with Ponzi schemes? First, the advisor must have “custody” of their clients’ funds. We do not. Second, the SEC investigator must either fail to recognize or ignore the telltale signs. Third, prospective clients have to buy into it. There will likely never be a risk-free, idiot-proof investment. If someone is trying to sell you one, run!

It will be interesting to see where the feds come down on this from a regulatory/oversight standpoint, but given the insurance industry’s demonstrated lobbying effectiveness when it comes to influencing the healthcare debate, I’m not holding my breath for an equitable or even sensible outcome.

Second, from The Motley Fool, “The 7 Words That Will Save America” that opens with, “We expect you to repay your debts.” Question: Why did the housing situation in the U.S. get so bad? One Answer: Because in most states, we have adopted “non-recourse” laws to protect borrowers from those greedy lenders who expect to be paid back when they make a loan. (What nerve!) This is essentially a one-way ticket. If the market works in your favor, enjoy it. If it doesn’t, walk away and it’s the lender’s problem.

As a comparative illustration, two industrialized nations that do not have similar non-recourse laws are Canada and Australia. Mortgage delinquencies in Canada have been below 1% since 1991. In the U.S., they’ve shot up from just over 1% in 2006 to almost 10% now. Australia’s housing market grew by 11% last year after suffering a mere 4% decline in 2008.

Call or e-mail if you have questions about this, or anything. I could probably write a whole Commentary on both of the subjects above.

A couple of quick notes to clients...

- 1) If you or your tax preparers need any information on your investment account(s) please contact us. Most of it can be e-mailed if needed.
- 2) If you’re thinking about making a last-minute IRA or Roth IRA contribution for 2009, please try and let us know before April 14th.

That’s more than enough for this month. We’ll keep an eye on things here and talk to you soon.