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## JANUARY 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	10,067	(3.5%)	3.7%	(3.5%)	25.8%
S&P 500	1,074	(3.7%)	3.6%	(3.7%)	30.0%
Nasdaq	2,147	(5.4%)	5.0%	(5.4%)	45.4%

The first half of January looked very promising for the markets, but something...perhaps reality...set in and sent investors running for the exits. The month closed in negative territory with accompanying negative sentiment. The few buy signals we were seeing at mid-month have all gone away, replaced with some rather ominous-looking market-sentiment graphs. In other words, things went from good to bad to ugly in a big hurry.

But, this is all short-term stuff. We never forget to look at longer-term (20- and 40-month) moving averages as well, and they indicate, despite this present pullback, that this market is trying to mount a turnaround to the upside. Lower-than-average volume is hindering that a bit. A little patience here will pay off.

Another thing to always keep in mind is that the economy is not the market, and vice-versa. Except for violent reactions to good or bad news, markets anticipate future, not present economic conditions.

Friday's unemployment numbers confused a lot of analysts because they didn't make a lot of sense. The unemployment rate dropped, unexpectedly to 9.7% from 10%. 20,000 non-farm jobs were lost, the labor force increased by 11,000, the government estimated that employment rose by 541,000 and unemployment dropped by 430,000. I'm expecting some big revisions to these numbers, but at this point I couldn't tell you whether they'd be up or down.

The markets, which have been in a bad mood since late January didn't like the report either. Early indications of a turnaround from Thursday's huge selloff gave way to negative sentiment and continued selling through most of the day, only to close in the green after an amazing comeback. Markets don't like uncertainty. A definitive report, good or bad would have been better than one that doesn't make sense.

Consumerism makes up about 2/3 of the country's GDP. Government jobs cost more than they produce in consumer buying power. We will have to see monthly gains in private-sector jobs, not just fewer losses than the previous month, before any expectations of a return of the American consumer can be founded on anything but pure fantasy.

There's a lot of tough talk coming out of D.C. about going after the banks for repayment of TARP funds, confiscatory taxes and whining about bonuses. How many of you know what I'm going to type next? If you answered, "Let's look at some history and do the math." You'd be correct!

In late 2008 and early 2009 several banks were basically forced to participate in TARP. Additional banks applied for and received TARP funds, while others applied and were denied. As an aside, the FDIC shut down 140 banks in 2009, and 15 have failed so far this year, compared to only 8 in January of 2009.

Of the \$700 billion in TARP funds approved, only \$500 billion ever made it to the intended sources. In mid-2009, the Congressional Budget Office (CBO) modified TARP and moved \$200 billion to "other uses." No one has ever discussed what the "other uses" were, but the term "piggy bank" was thrown around in a budget hearing earlier this week.

Here's the breakdown by industry of TARP participation. (Visit <http://bailout.propublica.org/main/list/index> if you enjoy wading through raw data as much as I do.)

Industry	TARP Funds Used	Tarp Funds Repaid	% Repaid	Paid in additional Dividends, Interest, & Warrants
<b>Banking:</b> 703 public and private banks	\$236 billion	\$158.6 billion	67.2	\$15.1 billion (6.4%)
<b>Financial Services:</b> Fannie Mae, Freddie Mac, Discover Financial, Chrysler Financial, GMAC & American Express	\$133 billion	\$4.9 billion	3.7	\$5.6 billion (4.2%)
<b>Auto:</b> GM & Chrysler, and their parts suppliers	\$65 billion	\$1.8 billion	2.8	\$428 million (0.7%)
<b>Insurance:</b> AIG, Hartford and Lincoln	\$50 billion	\$0	0	\$82 million (0.2%)
<b>Investment Companies:</b> 9 Hedge Funds	\$16 billion	\$356 million	2.4	\$1.7 million (0.01%)
<b>Other:</b> ????	\$200 billion	?	?	?

A few observations based on the above chart and the underlying data from the website...

- Citigroup Bank has paid back \$20 billion of the \$45 billion it received. If it makes good on the rest, the 67.2% repayment jumps to 78%, not including interest.
- AIG got 91% of the \$50 billion given to insurance companies, which was only a portion of the \$150 billion they received in total from the Government.
- GM is doing a little better than Chrysler at paying us back, but they also out-borrowed them by more than 4-to-1. On the other hand, Chrysler Financial has paid back 100% of the \$1.5 billion it received while GMAC has paid back \$0 of the \$16.2 billion it got.
- American Express and Chrysler Financial are the only two financial services firms to pay back any TARP funds and they have paid back all they borrowed plus dividends and interest.
- Any Hedge Fund that was in danger of failing probably wasn't a very good one. Only 1 of the 9, The TCW Group has paid back any, and they paid back all they took, plus interest. 5 others are paying interest only and 3: RLJ Western Asset Mgmt., Marathon Asset Mgmt., and Oaktree Capital Mgmt., have paid nothing.
- \$37 billion was committed to 105 Mortgage Servicers, but as of today, none has received any TARP funds.

You know...being as I'm kind of an investment guy and all, and someone trained to look at data and make decisions based on what I see...I look at the above and can't help but think maybe we should leave the banks alone.

I'm not claiming the banks are blameless in any of this, and I can't feel too sorry for the ones that made stupid decisions and failed as a result, but 57 of them have paid back 100% of what they borrowed, and several others have made partial payments. Plus, on average, they are paying dividends, interest and warrants at a higher rate than any other category of TARP recipients.

There are also some serious questions, perhaps to be investigated by a future congress about how the decisions were made as to which banks received and did not receive TARP funds, and about which banks were shut down or taken over, and how. A great example is Charter Bank here in Albuquerque. We have very good friends affected by this bank's "failure" and while we'll never know the whole story, what we do know smells very bad.

I was going to take a swipe at a particularly arrogant congressman, but I've gone on long enough this month. Suffice it to say, based on his comments, and biography, he, and the majority of his colleagues on both sides of the aisle and in the white house, have no clue what it's like out here in the real world, or how to fix it.

We'll do this again in about a month.