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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	10,857	5.2%	4.1%	4.1%	42.7%
S&P 500	1,169	5.9%	4.9%	4.9%	46.7%
Nasdaq	2,398	7.1%	5.7%	5.7%	56.9%

The average daily Volatility Index (VIX) reading dropped more than 20% from February to March and the indices responded well; driving the Dow close to 11,000 and the S&P 500 near 1,200. What exactly does this mean, numerically speaking? The S&P 500 gained 2.9% in February and 5.9% in March. The reduction in volatility is obvious when you look at individual trading day details.

There were 19 trading days in February; eight of which were down. In March, we had 23 trading days and seven of them were down. The big difference is in the average daily movement. In February, the average down day was down 0.82%, and the average up day was up 0.81%. These are actually very large numbers for daily index moves. By comparison, the average down day in March saw the index drop only 0.23%, and the average up day saw a rise of 0.46%. (My apologies to those of you who realize this is just an exercise in proving the volatility index actually represents market volatility, but every once in a while I have to prove these things to myself.)

We expect a pullback with the onset of first-quarter earnings reports and tax-day, but our forecast is predicting continued strength beyond that. Yesterday (Wednesday April 7<sup>th</sup>) was the first day trading volume showed some noticeable strength. Economic instability in Greece still has investors nervous.

President Obama's surprise announcement to re-open several offshore areas to oil drilling and exploration, and a persistently strong dollar has done little to push oil prices lower. Predictions of gas returning to the \$4/gallon range in the coming months could not come at a worse time for consumers, or the struggling recovery.

The government's employment numbers last week were mildly positive, but skewed heavily by the hiring of 48,000 temporary census workers. Economists expected an increase of 200,000 in non-farm payrolls, but the economy only gave us 162,000 new jobs. Those same economists cautioned against reading too much into the report due to the census hiring and a likely rebound from the recent snowstorms that impacted February's readings.

Some longer-term numbers...a year ago, payrolls were falling by 700,000/month. Since the recession "officially" began in December 2007, 8.2 million jobs have been lost, which accounts for more than half the 15 million now unemployed. Long-term unemployment grew worse with a record 6.5 million of the unemployed being out of work for six months or longer. Extended unemployment benefits now allow unemployed workers in some states to collect unemployment benefits for 99 weeks. Just where does the money come from for this? See the discussion that picks up paragraph after next.

The unemployment rate held steady at 9.7%, with additions to the workforce offsetting the new jobs. The alternative gauge, which includes discouraged workers and those forced to work part-time rose to 16.9%. The number of people claiming the slack economy has forced them to take a part-time job rose to 9.1 million, and over 1 million say they haven't looked for work because they think none is available.

A few observations on the president's proposed budget for fiscal years 2011-2020. (Hurry and download your very own copy now at <http://www.whitehouse.gov/omb/budget/fy2011/assets/budget.pdf>.) The projections (assumptions) of real GDP growth (adjusted for inflation) for this year through 2020 average 3.3% per year.

Inflation is assumed to remain at 2.1% or lower and that will allow interest rates to remain low. The unemployment rate will miraculously fall back to “full” employment, roughly 5%. Just looking at the assumed outlays vs. receipts, we will be paying more taxes and the government plans to continue to spend more than they take in.

One other thing...the percentage of government debt held by the public will increase from its current level of 53% to over 75% by 2020. I'm not sure how that will be accomplished, except perhaps by force or legislation. Who would reasonably expect the debt of an organization that runs perpetual and increasing deficits to attract more investors?

Not to worry though...a boxed paragraph on page 146 says (emphasis added), “The Administration supports the creation of a Fiscal Commission....charged with identifying policies to improve the fiscal situation in the medium term and to achieve fiscal sustainability over the long run. Specifically, the Commission is charged with balancing the budget *excluding interest payments on the debt by 2015*. The result is projected to stabilize the debt-to-GDP ratio at an *acceptable level once the economy recovers*. The magnitude and timing of the policy measures necessary to achieve this goal are *subject to considerable uncertainty* and will depend on the evolution of the economy. In addition, the Commission will examine policies to *meaningfully* improve the long-run fiscal outlook, including changes to address the growth of entitlement spending and the gap between the projected revenues and expenditures of the Federal Government.”

Gee...I feel better already. By the way...what's the interest payment on a trillion-dollars?

Next Thursday is tax-day. I'll spend more time on that next month if I find some good statistics to talk about. If not, you can take solace, or umbrage in the estimate by one Washington D.C. think tank that this year, the ratio of payers to non-payers is now 53:47...meaning 47% of the households in this country either don't earn enough, or qualify for enough deductions and credits that they pay no income tax, or get a refund.

I know these families don't get off scott-free. If they work, they still pay into social security and all the other payroll deductions; and everyone pays state and local sales taxes and fees, and some pay property taxes, but it is an interesting thing to ponder...especially if that ratio gets closer to 50:50, or moves beyond it. What happens when more households are not paying than those that are?

I guess that, along with Francisco d'Anconia's quote about “the root of money” in Ayn Rand's *Atlas Shrugged* are two things to think about until next month.

Clients...you still have time to make a Roth or Traditional IRA contribution, but time is quickly running out.