



Weekly Commentary April 13, 2009

The Markets

“It’s the economy, stupid” is a phrase coined by former President Clinton’s campaign strategist James Carville. Leave “stupid” out, and the phrase fits right into recent stock market action. Since the lows seen on March 6 (and we still believe that was the bottom of the bear market), the stock market has been on a big upside tear. The market is anything but stupid. Most folks missed the big rally because they believed the market was making a mistake and it didn’t know what it was doing. As we have often stated over the years, you don’t argue with an 800-pound gorilla or a strong stock market trend. Today it is clear that the stock market was, as usual, ahead of the news. It is the economy that prompted the market’s rally, but it wasn’t until last week that this became obvious. The White House Chief Economic Advisor Larry Summers expressed confidence “that the U.S. recession is nearing an end. We can be reasonably confident that it is going to end within the next few months.”

Almost everyone realizes that after economic recessions come economic expansions, and after bear markets come bull markets – that’s the easy part. But when should you start to buy stocks and get prepared for better times – that’s the hard part. We believe recent stock market action says that investors have started to look beyond the valley to peaks ahead. Now the question becomes, “What will they see?,” and “How will they respond to their perception of the always-uncertain future?” For the near term, we believe most folks missed the rally, are afraid they are missing the boat and will become stock buyers and take the market modestly higher. Past the near term, the problems are two-fold: First, the stock market is already up 25% since March 6, and secondly, when the economy will turn up and by how much are still very unclear.

We believe the stock market is correct in starting to anticipate and discount better economic conditions by year-end and some economic growth in 2010. The decline in real GDP is likely to moderate this quarter after a first-quarter drop in the 5 ½% area. However, economic growth next year appears headed for a slower rate than normally seen after a recession. Americans have lost a great deal of personal wealth and, we believe, will be much more fiscally conservative than they have been the past 10-15 years. U.S. exports will not come back quickly due to the global economic recession. Unemployment will likely rise for another year or so, and growth, as always, will be closely tied to consumer spending. We believe the odds favor a slow growth rate, although nothing is for sure, and fiscal and monetary stimuli will certainly help. So, as always, there are lots of questions for investors to deal with. We continue to advise the purchase of stocks on a partial basis and an overall positive posture toward equities. However, after the big rally we advise not chasing stocks up, but do buy pullbacks. Making and keeping money has never been easy, and adjustments have to be made when things change. Fortunately, our current recommended adjustments result from a positive, not a negative, development.

Index Performance Statistics – April 9

Index	Close	Change	% Change	% YTD Change	52 Wk % Change
DJIA	8083.38	246.27	3.14	-7.90	-35.75
NASDAQ	1652.54	61.88	3.89	4.79	-29.73
S&P 500	856.56	31.40	3.81	-5.17	-37.04

Source: Bloomberg

*Price return — does not include dividends

Goldman Sachs Raises \$5 Billion in Sale to Repay TARP Funds

Goldman Sachs Group Inc., buoyed by better-than-expected earnings and a 54 percent gain in its stock price, raised \$5 billion in the largest stock sale this year to help repay \$10 billion in government rescue funds.

The bank said today it sold 40.65 million shares at \$123 each, 5.5 percent less than yesterday's closing price of \$130.15. The price was exactly the same level at which the bank last sold shares in September. Until last week, the shares hadn't closed above \$123 since Oct. 6.

Last Week

The debate over the rally from the March lows continues. Major averages fell at the start of the week when well regarded analyst Mike Mayo of Calyon Securities recommended investors sell bank stocks on the concerns over loan losses. Also pressing the market were reports that merger talks between IBM and Sun Microsystems broke down. As the market sold off, market participant George Soros proclaimed the bounce from the recent lows was a bear market rally. Marc Faber, who made a call for investors to buy in front of the recent move, said the S&P 500 could retrace back around the November 2008 low before getting a rebound after July.

Positives later in the week in front of the long weekend helped recover earlier losses. Pulte Homes announced plans to acquire fellow homebuilder Centex for \$1.3 billion in an all stock deal. Pressure on life insurance companies lessened as the group may receive government assistance via access to TARP money. It was also interesting to see well known bear on financials Meredith Whitney say tangible book value and stock prices of companies within the group will go higher. Although she noted it may take until mid-2010 before banks "get out of the woods."

Weekly Focus – Think about it

"In the business world, the rearview mirror is always clearer than the windshield."

-Warren Buffett

Best Regards,

Jim, Aaron & Angela
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- * The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks.
- * The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.
- * Bloomberg is the source for any reference to the performance of an index between two specific periods.
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- * You cannot invest directly in an index.
- * Past performance does not guarantee future results.
- * The Markets prepared by Al Goldman, Chief Market Strategist, Wachovia Securities 4/14/09
- * Last Week sited from Dean Meehan, Market Analyst, Wachovia Securities 4/9/09
- * Goldman Sachs sited from Bloomberg article by Christine Harper and Poppy Trowbridge 4/14/09
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