

**It's time to leave 2008 behind.** We've heard the sound bites. We've seen the headlines. It's all yesterday's news. Let's turn our attention to 2009.

There is reason to be optimistic. We have a new administration and a huge new stimulus/infrastructure plan that may bode well for the economy. We have the Federal Reserve and the Treasury working to thaw the credit markets. We have economists sensing the beginnings of a recovery later this year. Here are some thoughts as we enter 2009.

**Eyes on the first few days.** Traditionally, stock market analysts have looked closely at the first few trading days of a new year for a clue as to how the markets will do the rest of the year. When a new President takes office after a bearish year, the interest in these first few days is heightened. If the market performs well or poorly, the thinking goes, it "sets the tone" for the first quarter and the year.

Many economists would say this is bunk, and that macroeconomic forces will ultimately shape stock market performance rather than a few market days. Traders would reply by saying that the impulses of investors don't always correspond to macroeconomic forces.

They can also point to some telling statistics. Read *Stock Trader's Almanac*, and you'll discover that a positive January has led to a positive year for stocks more than 90% of the time.<sup>1</sup>

Historically, Januarys have been bullish on Wall Street. But as the *Almanac* notes, every January in which stocks have lost ground has "preceded a new or extended bear market, or flat market."<sup>1</sup> So keep watching.

**Stocks up 20.04%.** What? What kind of statistical manipulation is that? It's no trick; it's reality. On November 20, the S&P 500 closed at 752.44. It ended 2008 at 903.25. So the broad stock market gained 20% in less than 30 trading days at the end of 2008.<sup>2</sup> Hopefully, you didn't miss that.

Sure, you say, this is just a bear market phenomenon. It could be. But consider these hopeful signs. Our current recession began in December 2007, according to the National Bureau of Economic Research.<sup>3</sup> It is now entering its fourteenth month. The two worst downturns in post-WWII history have lasted 16 months.<sup>4</sup> (The old joke is that a

recession is over just about the time that NBER confirms it.) Most economists doubt the recession will last through the end of 2009.

**We're not living in 1931.** You've probably read articles that compare and contrast the current economy to the 1930s. Well, we haven't gone that far back. Sure, we're seeing a lot of short sales and foreclosures. But we're not seeing every other bank shuttered, soup lines on the corner, or one out of every four Americans looking for work. The economy is down, but not out.

What we've done, in a sense, is to go back a few years. Mortgage rates, oil futures, retail gas prices, home prices, inflation – they are all in the ballpark of what we saw in 2003 or 2004 (and mortgage rates are lower than that). Keep in mind that in the last 2-3 years, you had the real estate market at its peak, the stock market setting records, and a commodities market that was on fire. Inevitably, all that cooled off. Severely, yes – but inevitably. Recessions are part of the natural economic cycle.

**When do things turn bullish?** Well, a few things have to occur to pave the Street for another extended bull run. One, the federal government stimulus and rescue plans have to take effect. Two, banks have to start lending more readily. Three, the real estate market has to show new signs of life. Improvements in corporate earnings, joblessness and consumer spending will also help.

**We might be poised for great things.** In recent times, powerful bull markets have emerged from low points in stocks and consumer confidence. You can point to 2003, after Black Monday in 1987, and 1982. Moreover, some of the best long-term investing opportunities have emerged from extended bear markets or tepid markets.

Consider this: The Leuthold Group, an institutional research firm based in Minneapolis, MN just concluded that the annual returns of the S&P 500 from 1998 to 2008 averaged -0.93% per year, not including dividends. (This study wrapped up at the end of November 2008.) As the research notes, "when 10-year annual returns [of the stock market] fall to 1% or less, the next 10 years produce an average cumulative return of 183%".<sup>5</sup> So there's some hope for you.

**What should you do in 2009?** Talk about it with your financial professional. The start of the year is a good time to review and revisit your financial plans and your long-range investment strategy.

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#### **Citations.**

<sup>1</sup> [usatoday.com/money/markets/2008-12-28-stocks-january\\_N.htm](http://usatoday.com/money/markets/2008-12-28-stocks-january_N.htm) [12/28/08]

<sup>2</sup> [money.cnn.com/quote/historical/historical.html?pg=hi&close\\_date=11%2F20%2F08&mode=add&symb=SPX](http://money.cnn.com/quote/historical/historical.html?pg=hi&close_date=11%2F20%2F08&mode=add&symb=SPX) [12/31/08]

<sup>3</sup> [nber.org/cycles/dec2008.html](http://nber.org/cycles/dec2008.html) [12/11/08]

<sup>4</sup> [wwwdev.nber.org/cycles/cyclesmain.html](http://wwwdev.nber.org/cycles/cyclesmain.html) [1/1/09]

<sup>5</sup> [dallasnews.com/sharedcontent/dws/bus/personalfinance/stories/010109dnbusiqmain.3911600.html](http://dallasnews.com/sharedcontent/dws/bus/personalfinance/stories/010109dnbusiqmain.3911600.html) [1/1/09]