Build Knowledge/Valuation & Analysis

Time to Think Positive

By Barry Mendelson, CIMA
May 19, 2009

Green shoots are sprouting all through the economy. Declines are moderating. While it's not time to throw a party, it is a good moment to review opportunities and look forward to a possible economic recovery.

Until recently, we have been seeing red ink for months. You walked into the office, turned on your computer, and watched the "tape." The news was bad; you were dragged through the day by unprecedented volatility, downward pressure on prices, and unheard-of Fed intervention. Financial dark clouds were everywhere.

You kept your chin up and used the "opportunity" to focus on things you could control: getting to know clients better, researching new products, developing new business, networking, and so forth. You've been through downturns before, but this episode has been especially unnerving because of its magnitude and the irrationality of prices.

Client meetings unearthed fundamental questions. How do we stop the bleeding? *Can* we stop the bleeding? How do we turn around and get on with our financial lives? Just as we catch our breath to consider the carnage, it looks like things are about to change—again. Welcome answers appear to be around the corner. In fact, the S&P 500 has regained all its losses from earlier this year. And changes will be brought to you by the same market that handed you your head over the last year. Can't you take a joke?

While third- and fourth-quarter events left investors grasping (or is that gasping?) at straws last year, the first quarter of 2009 saw shoots of clarity starting to emerge. We believe spring and a healthier market sentiment are just around the corner.

A look at sector performance in March shows what is starting to move: economically sensitive stocks, many of which have been bludgeoned. Information technology, materials, and consumer discretionary had the best quarterly performance. The market is anticipating some form of economic recovery later this year or early in 2010. The rate of economic descent is moderating.

As additional signs of recovery begin to emerge in housing, credit, sentiment, trade, inflation, and GDP, the irrationally low pricing of securities can now moderate. We are not suggesting a V-shaped recovery, robust GDP growth, or that all the news will be positive.

Labor conditions will continue to weigh on the market, especially impacting discretionary consumption and durable goods. But we do think things are starting to improve.

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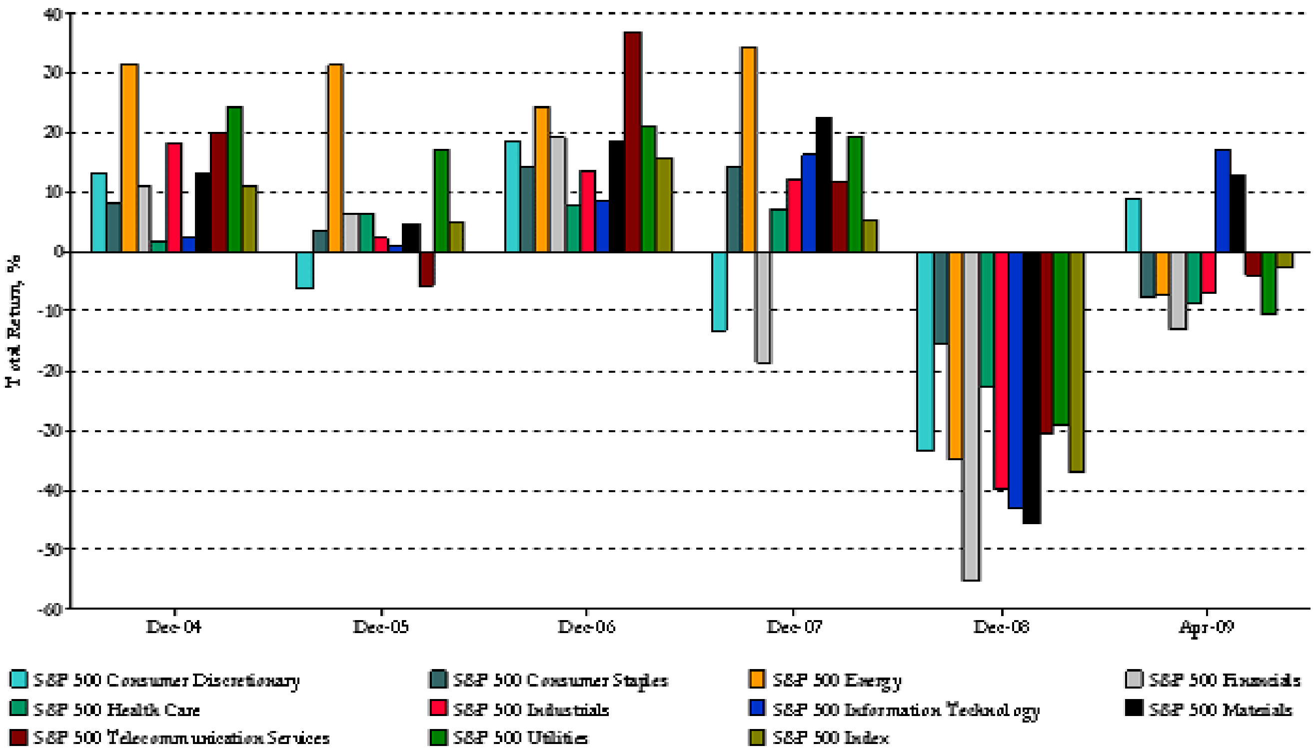
For now, enjoy the relief and don't be too pessimistic. Who knows, the resolution to our economic problems may take hold sooner than we anticipate. Just don't get carried away; remember the last few quarters of pain (see below).

Calendar Year Returns



Source: CMC eResearch

Barry K. Mendelson, CIMA and managing partner of [Capital Market Consultants, LLC (CMC),](#) consults with mid- to small-sized financial organizations and RIAs. The group assists with product development, investment due diligence, and advisor training services covering SMAs, mutual funds, exchange-traded funds, hedge funds, and other alternative investments. CMC offers an extensive array of online research services including a robust chart library with monthly updates, long-term performance analysis of over 10,000 mutual funds with monthly updates, a qualitative manager database, returns- and holdings-based style analysis, and performance attribution.
