



BALANCED INVESTMENT STRATEGIES

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Market Returns

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Balanced Investment Strategies

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Trying to predict the future direction of financial markets can be an extremely hazardous business for the so called experts, so what chance do us mere mortals have.

In mid 2008 millions of would be investors were reluctant to move into equities because the market was falling too fast. Twelve months later it was because the market was rising too fast.

The reality is that correctly timing your exit and entry to the market is impossible. If it were as easy as some claim, millions would be doing it and getting very rich in the process.

As it turned out 2009 was unusually rewarding for equity investors around the world. But for many investors it was also the most challenging experience of their financial lives, and their ability to maintain a consistent strategy was sorely tested.

The following excerpts are drawn from various US publications from the first half of 2009. Predicting future changes in business and credit conditions is hard and predicting how other market participants will respond to those changes is harder still. As a result, it is not surprising that investors seeking to enhance their results by outguessing their compatriots, are often frustrated to discover that even an accurate economic forecast offers no assurance of achieving above-average investment results.

"Some optimistic experts are now saying that though this will be a turbulent year for global markets, the worst of the financial crisis is behind us. Would it were so. We believe that 2009 will be tougher than many anticipate....The world's first global recession is just getting started."

Ian Bremmer and Nouriel Roubini, "Expect the World's Economy to Suffer Through 2009," Wall Street Journal, January 23, 2009.

"Don't be fooled by bear market rallies. It's way too early to get back into U.S. stocks...Expect meltdowns in securities backed by credit card debt, home equity, student and auto loans as well as commercial real estate.... Avoid emerging markets, especially China. China's fiscal bailout contains lots of smoke and mirrors, and social unrest is mounting."

Gary A. Shilling, "Field Day for Short-Sellers," Forbes, February 16, 2009.

"Will dry powder ignite a stock market rally? One bullish argument rests on piles of cash sitting in bank accounts and money-market funds earning next to no interest....But if people have lost faith in the stock market, that powder could get quite damp....Indeed, the last time investors really soured on stocks, during the 1970s, market returns were lousy for a long time."

Larry Light, "Will Queasy Money Return?" Wall Street Journal, February 20, 2009.

"Equity bulls can argue that each fresh low brings the market closer to a bottom, but this has been a constant and increasingly hollow refrain for more than a year. Moreover, attractive valuations, reflected in low price earnings ratios and dividend yields comfortably above 10-year government debt yields, are increasingly believed to represent 'value traps' for investors—in other words, they are cheap for good reason."

Michael Mackenzie and David Oakley, "No End in Sight for Equities' Bear Hug," Financial Times, February 25, 2009.

"The economy's green shoots have stopped growing....Stocks can't ignore the economy just yet. The data suggest still more bank losses, more uncertainty about government intervention and a longer recovery process than the consensus expects. 'We don't have a business-cycle recovery in sight....You can't rule out a 2010 recovery, but we have no objective evidence to support it.' "

Quotation attributed to Lakshman Acuthan, managing director, Economic Cycle Research Institute. Gongloff, Mark, "Stocks Still Can't Ignore the Numbers" Wall Street Journal, March 2, 2009.

"Just how low can stocks go?... As earnings estimates are ratcheted down and hopes for a quick economic fix fade, the once-inconceivable notion of returning to Dow 5000 or S&P 500 at 500 looks a little less far-fetched... According to Goldman data, the bottom of the 1974 bear market had a forward P/E of 11.3. At the trough in 1982, it was 8.5. Put a multiple of 10 with estimates of \$40 or \$50 a share and the S&P 500 comes out at 400 and 500." [The S&P 500 index closed at 683.38 the previous day.]

Annelena Lobb, "Dow 5000? There's a Case for It," Wall Street Journal, March 9, 2009.

"Concern about the economy flared after billionaire investor Warren Buffett said in an interview on CNBC television that the economy has 'fallen off a cliff' and the World Bank said that the global economy is likely to shrink for the first time since World War II."

Peter A. McKay and Rob Curran, "Dow Drops to 6547.05 as Dim View Spreads Out," Wall Street Journal, March 10, 2009.

"When searching for a floor, the risk is that the roof caves in on top of you. The current broad market rally has spawned renewed talk of inflections, turns, and bottoms...Upbeat comments on profitability from the likes of Citigroup Inc. kicked things off. Speculation that mark-to-market accounting might be suspended also helped. Neither is convincing....Even if investors think it can't get any worse, the underpinnings of a sustained, healthy rally aren't in place yet."

Liam Denning, "Rally Driver Wanted for Stocks," Wall Street Journal, March 17, 2009.

"U.S. retail investors poured close to \$250 billion into bank accounts in the first months of this year, sharply accelerating a flight to safety as they continued to flee volatile stock markets."

Deborah Brewster, "Retail Investors Flee to Savings," Financial Times, March 26, 2009.

"Commercial real-estate loans are going sour at an accelerating pace, threatening to cause tens of billions of dollars in losses to banks already hurt by the housing downturn."

Lingling Wei, "Commercial Property Faces Crisis," Wall Street Journal, March 26, 2009.

"We're not out of the woods by any stretch of the imagination. One has only to look at the pace of rising unemployment and what that entails for corporate profits in 2010 to remain cautious about the equity market."

Quotation attributed to Andrew Milligan, head of global strategy, Standard Life Investments. Michael Mackenzie, "Beware the Bear Market Bounce," Financial Times, April 4, 2009.

"The most credible drivers of this rally are hints of an economic bottom. But even these tell of a bottom at a very low level, not necessarily a quick recovery.... While this bounce might not mirror November's it still has the hallmarks of a bear-market rally."

Mark Gongloff, "It's Starting to Look a Lot Like November," Wall Street Journal, April 6, 2009.

"The rare nature of this recession precludes a cyclically normal recovery. Instead, we are consigned to a slow, painful climb-out, as are nations such as Japan and Mexico that depend on US demand."

Roger Altman, former deputy Treasury secretary. "Why This Will Not Be a Normal Cyclical Recovery," Financial Times, April 6, 2009.

"Since S&P began collecting dividend data in 1955, cuts have never outnumbered increases—until now. A total of 367 companies reduced or eliminated their payouts last quarter, up 342% from the 83 reductions in the first quarter of 2008, S&P said."

Tom Petrino, "Dividend Cuts Surpass Increases in First Quarter," Los Angeles Times, April 8, 2009.

"New research shows corporate bonds have been far better at predicting where the economy is headed than anyone thought. Unfortunately, that suggests the economy is going to get much worse."

Justin Lahart, "A Warning from the Bond Market," Wall Street Journal, April 9, 2009.

"The International Monetary Fund's new economic forecast offers a much gloomier view of the outlook for the world economy than the consensus of private sector economists and economic policy makers."

Krishna Guha, "IMF Forecasts Offer Much More Pessimistic View than Consensus," Financial Times, April 10, 2009.

"The March stock market rally that fuelled hopes of a broader economic recovery was deceptive because 'real money' investors remained on the sidelines, according to the chief executive of NYSE Euronext, the world's largest stock exchange. In rare comments about market movements, Duncan Niederman said in an interview with the Financial Times that the rally was driven by short-term traders trying to take advantage of high volatility and not by large institutional or other long-term investors."

Anuj Gangahar and Chrystia Freeland, "Head of NYSE Cautious Over Rally in March," Financial Times, April 16, 2009.

"The core of the problem is the credit system and the credit system is severely damaged. Unwinding the credit bubble is going to take years, not quarters. We see this stock rally as an opportunity to sell."

Quotation attributed to George Feiger, CEO of Contango Capital Advisors.
E.S.Browning, "Bulls and Bears Both Point to Lending," Wall Street Journal, April 20, 2009.

"According to a study prepared for Bloomberg by Washington Service, a research outfit, directors, officers and the like have sold \$353 million worth of stock in this fading month, or 8.3 times the total bought. As a matter of fact, according to the firm, insider purchases of \$42.5 million are on track to make April the skimpiest month for such buying since July 1992. The pace of selling in the first three weeks of this month, incidentally, was the swiftest since the market peaked and the bear came out of hibernation with a vengeance in October '07....It all boils down to this: Nobody ever sold a stock because they thought it would go up. And as a group, corporate insiders obviously are scarcely enthusiastic about the prospects for a genuine bull market."

Alan Abelson, "Up and Down Wall Street," Barron's, April 27, 2009.

"The current recovery has propelled the S&P 500 a third above its March low in just 60 days, convincing many skeptics that a new bull market has begun...It was a fairly typical sucker's rally and bear markets often need more than one to create sufficient disillusionment for a definitive bottom."

Spencer Jakab, "On Wall Street: Beware of the Sucker's Rally," Financial Times, May 8, 2009.

"Detroit's woes are hitting Main Street with a vengeance. Chrysler moved Thursday to eliminate 789 of its dealers, using its bankruptcy status to break their franchise contracts. And as many as 1,200 General Motors Corp. dealers are expected to receive termination notices as soon as today, with an additional 1,400 coming as GM works to meet a June 1 restructuring deadline."

Ken Bensinger and Jim Puzzanghera, "Chrysler Spreads the Pain with Move to Drop Dealers," Los Angeles Times, May 15, 2009.

"Nations around the world voiced alarm and frustration about what could be done to rein in the growing security threat from North Korea after the isolated regime set off what it said was its most powerful nuclear test yet."

Evan Ramstad and Jay Solomon, "Korean Blast Draws Outrage," Wall Street Journal, May 26, 2009.

"The pace of prime borrowers going into foreclosure is accelerating, especially in states with mounting unemployment or property values that saw a big run-up during the housing boom."

Stephanie Armour, "Foreclosure Crisis Bleeds into Prime Territory," USA Today, June 9, 2009.

"To fund manager Doug Noland, economic 'green shoots' and a hopeful stock market, fed by government spending, equal plenty of targets to sell short. 'The theme here is global deflation that replaces the mortgage bubble', he said. 'We believe very strongly that this is a secular bear market.' "

Quotation attributed to Doug Noland, manager, Federated Prudent Bear Fund. Matthias Rieker, "Start of Summertime Brings Out the Pessimists," Wall Street Journal, June 22, 2009.

"This 40% rally isn't based on a 40% increase in fundamentals. The economy is still declining. Credit isn't coming back. Unemployment is rising and we are seeing a much less robust consumer. I think the market at some point is going to give back a large portion of these gains."

Quotation attributed to Michael Farr, president, Farr, Miller & Washington. E.S. Browning, "Is the Bull Run Pulling Up Lame?" Wall Street Journal, June 22, 2009.

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