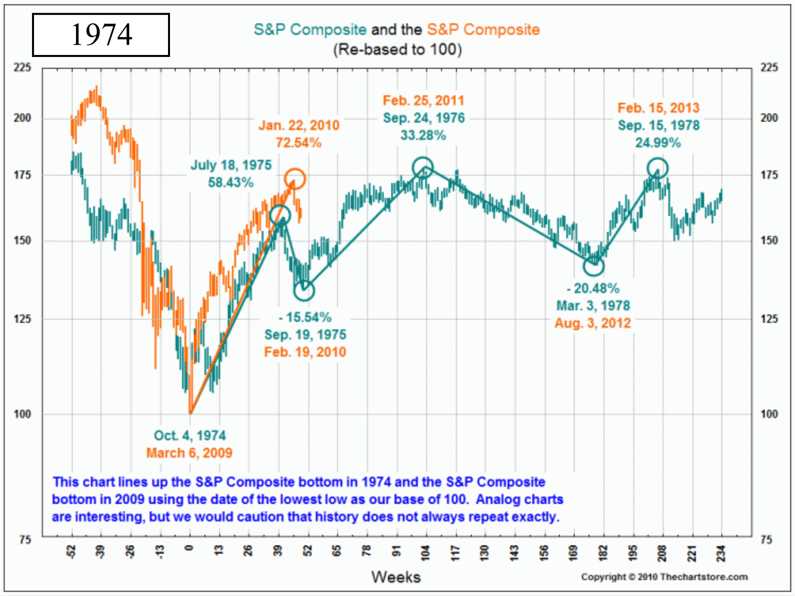
Advisors

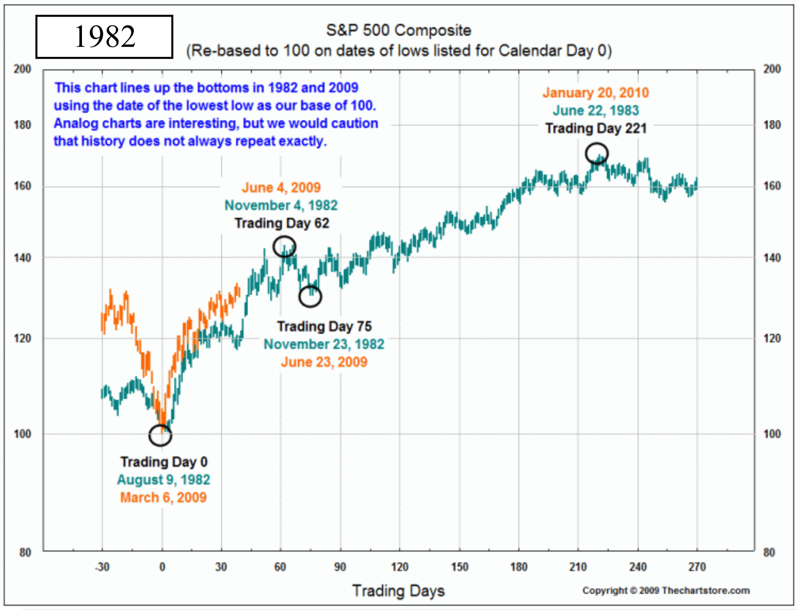
Newsletter
March 2010

Lies, Damn Lies and Money Manager Forecasts

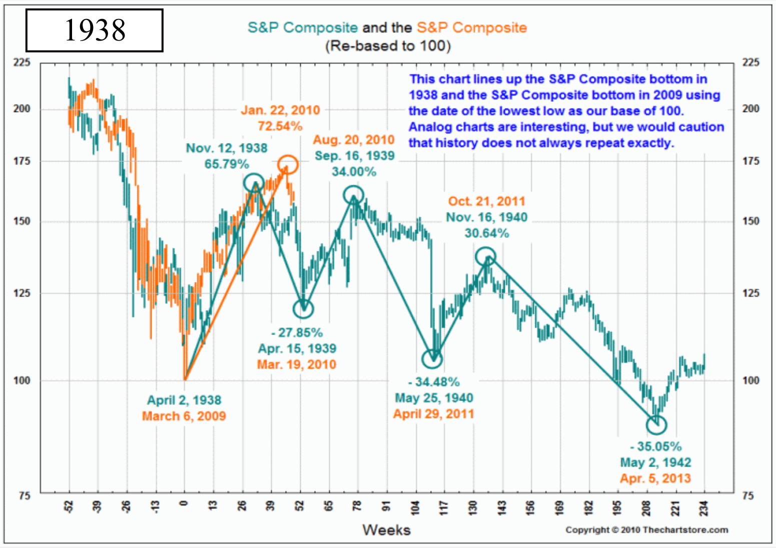
It has become very popular for stock market prognosticators to compare a period from the past to the current economic/market cycle to support their forecasts. While this evidence is very convincing in isolation, **the problem with this approach is completely divergent outlooks can be supported by using different time periods from the past.** Economic recoveries have varied dramatically in the past as political and economic leaders have made decisions to support or not support the economy financially. Current leadership, with a known "Great Depression" aficionado at the financial helm, has bent over backwards to stimulate and support the weak economy. The real question to be asked is: If you peel back all of the stimulus, is there a recovery somewhere inside?" The answer to this question is yet to be determined, but don't make your future decisions based only upon a path from the past.



Take a look at the three charts comparing the current market with three different periods: 1938-1942; 1974-1978; and 1982-1983. All three charts match up fairly well at the beginning. However, the path for the stock market soon diverges significantly. The 1938-1942 chart is very negative, the 1974-1978 chart is neutral with the stock market in fairly wide trading range, while 1982-1983 chart is decidedly bullish.



The proper approach to making informed investment decisions is to mindful of the past but more focused on current conditions. We believe the performance of the stock market will be determined by the outcome of the following key issues: (1) the extent and degree of de-leveraging that occurs by industry and consumers in developed countries; (2) the amount of sovereign debt the market will absorb before revolting with higher interest rates; (3) the growth potential of the much less fiscally-strained developing countries, especially China; and (4) the multiple investors will apply to the stock market.



Best wishes,

Jim Tillar, CFA, Steve Wenstrup