THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

U.S. Stocks once again were headlined as breaking a near-term record as they rose the most in a week they have at any time this year. The Standard and Poor's 500 Stock Index (S&P 500) was up 2.8% for the week, and the Dow Jones Industrial Average (the Dow) was up about 2.6%. The S&P 500 officially bottomed last week at 1,810, so its close today at 1,918 was about 6% higher than it was on Wednesday of last week. That is still down 10.2% from the high of 2,135 last May, so we are still, more or less officially, in a "correction."

While the Barclay's Aggregate Bond Index (AGG) hit its low point right at the end of the year at about 107 and is now up to 109.79, it is still down about 2% from its high last April. Considering that the gross yield on that index is 2.49% per year, it is just below a break-even, and after most of a year, like the stock indexes, is in negative territory. The yield on the ten-year Treasury note, the most fundamental benchmark of interest rates and bonds, ended the day today at an annualized interest yield of 1.75%.

Perhaps one thing we can draw from all those numbers is that there was simply not any place available to regular folks like us where one could get a return much above zero over the last year. That is one of the things that happens when we invest. Investing is a long-term proposition. Savings is short term. Historically, if someone wants to have a growth rate in his or her wealth that is greater than about zero, then that person must be willing to tolerate the downs as well as the ups. Sometimes those downs last just a short while and sometimes they last years, but, again historically, a well diversified portfolio of mainly U.S. equities (stocks) has been the best performing asset class that an investor could choose. Still, there is a price to pay for that and we are seeing a bit of that this year.

The good news in all this is that there seems to be a slight change in sentiment among investors. Several relatively successful money managers were quoted today as saying something to the effect that traders appear to have come to the conclusion that the world was not coming to an end, and we are not about to repeat 2008-2009. Perhaps the most significant thing that happened in the markets was that oil declined in price while the stock market indexes rose. West Texas Intermediate Crude closed at $29.72 per barrel after hitting $31.75 earlier in the week. that is not a huge differential, but so far this year until this week, a drop in oil prices equaled a drop in stock prices. The decoupling of the two numbers may just indicate some small measure of sanity has returned to Wall Street.

Meanwhile, the Bulls, as they have been saying for some time, were clearly of the opinion that the economy was in great shape, and this was a buying opportunity in an irrational market downturn. The Bears appear to be of the view that this is a "bear market rally" and that the decline will undoubtedly resume in short order.

The Economy

The Commerce Department reported that U.S. Industrial Production rose 0.9% in the month of January. That was a surprise to the economists and the pessimists. Again, we had blizzards in the Northeast in January, and they tend to depress industrial production. I don't think much of anyone was expecting that significant of an increase. Overall, factory output in the United States rose 1.2% over the last year. While that is not exactly a home run, it certainly does not indicate a recession is at hand. In fact, there is only one leading economic indicator of the ten indicators in the Leading Economic Index (LEI) that is down, and that is the stock market. The stock market decline, combined with the continuing distress in oil-dependent economies overseas and the stagnation in Europe are at least part of what have led economists to raise the probability of a recession beginning in the next twelve months to 21%. Of course, there is another way of looking at that number, and that is that the odds of no recession, and thereby continued growth, is about 80%. Frankly, I would give any year a chance of seeing a downturn, and a one in five chance seems to be almost a constant.

Household spending, which is about 70% of the U.S. economy, has continued to rise and was up about 3.2% year over year. As we have reported before, unemployment is at 4.9% and the larger measure of underemployment, the U-6, has dropped from about 11.3% a year ago to about 9.9% at the end of January. Initial jobless claims, historically one of the earliest warning signs of an economic slowdown, is at the lowest level in 40 years. That number alone is striking as the other low point in initial jobless claims have coincided with the early phases of bull markets and economic expansions.

Speaking of the Leading Economic Indicators, the Chief Economist at the Conference Board, the organization that publishes the LEI, went on record as stating that the LEI is predicting moderate economic growth in the United States over the next six months to a year.

There are three sources of economic headwinds that remain. The first, and most easily understood is that the investment in oil related equipment and operations is down, way down. The second cause of concern remains the uncertainty of overseas markets and economies. Some are clearly in deep trouble while others are wobbling. The third and possibly biggest headwind to economic and market growth is the torrent of negativity coming from the Presidential nomination contenders. The economists who participated in the poll where the Wall Street Journal found the chances of a recession had risen to 21% stated that the primary risk is that the negativity could spread to consumers and businesses and make them stop buying things. That is the one factor they agreed could create a recession and a full-blown bear market.

As I wrote last week, the only thing we have to fear is fear itself.

As usual, we will be on the radio tomorrow from 10:00 AM to 12:00, KTEM, 1400AM or at www.ktemnews.com.

Until next week we are,

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