

# Insight Financial Services Presents Monthly Economic Update for March, 2009



**Quote of the month.** “You can tell whether a man is clever by his answers. You can tell whether a man is wise by his questions.” – Mahfouz Naguib

**The month in brief.** Months ago, Warren Buffett compared the U.S. economy to a great athlete who had suffered a heart attack. February was the month in which a team of financial and political surgeons in Washington worked furiously to try and restore its health, while investors paced restlessly in the waiting room. Worries over banks dragged on stocks. The government let Wall Street and Main Street know that help was on the way, but while Main Street applauded, Wall Street was a tougher sell.

**Domestic economic health.** At the end of February, we learned two key economic statistics that helped to explain the state of the economy. 4Q 2008 personal spending had shrunk by 4.3% and 4Q 2008 GDP had contracted by 6.2% in the revised estimate of the Commerce Department.<sup>1</sup> Unemployment reached 7.6% in January, and the number of Americans working part-time had increased by 3.1 million across the last 12 months.<sup>2</sup> So it was little wonder that we heard so much about dividend cuts and job cuts in February.

President Obama’s stimulus plan became law on February 17. The \$787 billion package included payroll tax cuts of \$400 for individuals and \$800 for couples, and a one-time \$250 payment to disabled veterans and retirees.<sup>3</sup> The White House also unveiled a plan dedicating \$75 billion to help homeowners without equity and homeowners who couldn’t make mortgage payments (and another \$200 billion to Fannie Mae and Freddie Mac to get the effort rolling).<sup>4</sup>

As February wrapped up, President Obama also introduced a proposed federal budget, with a goal of cutting the \$1+ trillion deficit to \$533 billion by 2013. It would include a \$634 billion health care reserve fund and make the above payroll tax cuts permanent ... and in 2011, reset the highest tax brackets back to 36.0% and 39.6% and reset the capital gains tax rate to 20.0%.<sup>5</sup>

On Wall Street, stocks fell as a result of unimpressive earnings reports and persistent worries about big banks. Market analysts and economists were nonplussed by Treasury Secretary Timothy Geithner’s proposal to revamp the bank rescue plan; his speech seemed to present a sketch instead of a strategy. (Indeed, the Dow dropped 17% from February 10, the day of his speech, to March 2.<sup>6</sup>) Stress tests began for major thrifts; the government began analyzing their capitalization to gauge if they could withstand worst-case scenarios. No one wanted nationalization, and that included the federal government.

However, Uncle Sam did increase its stake in Citigroup. As the month ended, the Treasury struck a deal to convert up to \$25 billion in preferred Citi shares to common shares.<sup>1</sup> Rumors swirled that AIG would need more capital – and on March 2, they proved true, with the government making a third purchase of preferred shares in the insurance giant for \$30 billion.<sup>6</sup> AIG announced a \$61.7 billion fourth-quarter loss; General Motors announced a \$9.6 billion fourth-quarter loss.<sup>7</sup>

Still, Federal Reserve Chairman Ben Bernanke told the Senate Banking Committee that the recession could end during 2009, and that 2010 could prove to be a “year of recovery” if federal rescue plans work well.<sup>8</sup>

**Global economic health.** The European Union ended the month by rejecting a bailout for certain Eastern European nations. Residents of Eurozone countries had reasons to be less confident: first of all, lending to the economic region’s households and business diminished in February to the slowest pace since 2003. Retail sales declined

during the month in the Eurozone, and Germany's jobless rate increased for a fourth straight month to 7.9%. A key EU index of business and consumer sentiment fell to 65.4 from 67.2.<sup>9</sup>

The recession was really hurting demand for exports from Asia, and fresh indicators relayed the damage. January's numbers were not good: exports in Indonesia, South Korea and India were respectively down 35.5%, 17.1% and 16.0% compared to 12 months earlier. China's exports fell 17.5% in January from a month earlier, and Japan's exports fell by 45.7% in January – a record.<sup>10</sup> News came that Japan suffered a 12.7% (annualized) drop in GDP in the fourth quarter, and Taiwan an 8.36% 4Q GDP drop with roughly a 20% decline in exports anticipated for 2009.<sup>11</sup> China was still growing, with analysts estimating its 4Q 2008 GDP at 6.8%.<sup>12</sup>

**World financial markets.** Some of Asia's stock markets were faring better than our markets – at least by the indices. The Nikkei 225 lost 5.3% in February – bad, but not as bad as the S&P 500; the Shanghai Composite Index is up 14% for 2009. The MSCI World Index fell 9.3% last month.<sup>13</sup> In Europe, the Dow Jones Stoxx 600 slipped 9.6% for the month.<sup>14</sup> The FTSE 100 lost 7.7% in February.<sup>15</sup> During the last week of the month, the German DAX fell 4.3% and France's CAC 40 retreated 1.8%.<sup>16</sup>

**Commodities markets.** It was a good month for gold (+1.52%), and an even better month for silver (+4.14%), copper (+3.92%) and platinum (+9.48%). Oil futures lost 2.97%. At month's end, the AAA price survey of retail gasoline had regular unleaded averaging \$1.883 per gallon nationwide. In ag futures, rice gained 7.14% on the month, sugar 5.62%; most ag futures fell in February, notably wheat (-10.12%), cocoa (-14.61%) and soybeans (-11.02%).<sup>17</sup> The U.S. Dollar Index gained 2.2% for February.<sup>18</sup>

**Housing & interest rates.** On the positive side, we learned from the National Association of Realtors that pending home sales were up 6.3% in December.<sup>19</sup> Citigroup and JPMorgan Chase both decided to refrain from new foreclosure proceedings until March. As for new and existing home sales, well ... new home sales fell 10.2% in January, while residential resales slumped 5.3%.<sup>20</sup>

If you were buying a home, February was a good month to do it. As the month concluded, mortgage

rates remained appealingly low, much lower than they were a year ago. In the last week of February, Freddie Mac had 30-year fixed-rate mortgages averaging 5.07%, compared to 6.24% in late February 2008. 15-year FRMs were at 4.68% in late February, as opposed to 5.72% a year earlier; 5-year ARMs were at 5.06%, while 1-year ARMs were averaging 4.81%.<sup>21</sup>

**Major indexes.** It was a tough month for stocks, what with stress over bank stress tests, the health of various financial sector giants, and frequent negative indicators. Hopefully, February was the toughest month investors will experience for quite some time.

% Change	1-Month	Y-T-D
DJIA	-11.72	-19.52
NASDAQ	-6.68	-12.63
S&P 500	-10.99	-18.62

Source: CNBC.com, 2/27/09<sup>22</sup>

*Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.*

**March outlook.** When will the stimulus take effect? When will banks be adequately capitalized so that typical levels of lending (and borrowing) can resume? When will people want to invest in real estate? "When" is the big question. One school of thought is that the current bear market is a natural force, a tide going out, and that the bottom can't be called yet. Another school of thought believes that certainly we must be getting closer to it, and that a return to fundamentals could come sooner than expected, coinciding with a buying opportunity that no long-term investor should miss.

Consider the thoughts of two stock market analysts – one of whom was the first voice to call this recession. David Rosenberg, the chief North American economist at Merrill Lynch & Co. who declared a recession in January 2008, has researched all 12 recessions since 1932 and found a rough pattern to bear market recoveries. He has noted that when the S&P 500 makes a new bear market low, on average it recovers about 16% over the following 35 days. Then it loses about 75% of that 16% rally across the next 35 days. But after this descent, the index may rally as much as 25% over the ensuing 12 months.<sup>23</sup> In late February, analyst Alpesh Patel of New York City's Praefinium Group told CNBC that bear markets have averaged just 84 weeks in length across the last 100 years, and

that this one had reached the 70-week mark at February's end.<sup>24</sup> So while no one is calling the bottom yet, and while past index performance is not an indicator of future index performance, perhaps we should be encouraged by these historical stock market patterns and timelines.

Now the roll call of economic releases for the balance of March. We have January pending home sales (3/3), February's ISM services index (3/4), January factory orders (3/5), February unemployment and wages (3/6), January wholesale inventories (3/10), February retail sales and January business inventories (3/12), preliminary March consumer sentiment (3/13), February industrial output (3/16), February PPI and core PPI (3/17), February CPI and core CPI (3/18), February existing home sales (3/23), February durable goods orders (3/24), February new home sales (3/25), February personal income and consumer

spending (3/27) and the Conference Board's March survey of consumer confidence (3/31).

**Riddle of the month.** Sally promised Kate today that she will tell Kate a big secret on the day before four days from the day after tomorrow. If today is Saturday the 13th, on what day and date will Sally tell Kate her big secret?

*(Contact my office or see next month's Update for the answer.)*

**Last month's riddle.** How is it possible to name three consecutive days without using the words Monday, Tuesday, Wednesday, Thursday, Friday, Saturday, or Sunday?

**Answer:** Yesterday, today, and tomorrow.

---

*Securities and Advisory Services offered through National Planning Corporation (NPC), Member FINRA/SIPC, a Registered Investment Advisor. Additional advisory services offered through IFS Advisors, LLC (IFSA), a Registered Investment Advisor. IFSA, Insight Financial Services and NPC are separate and unrelated companies.*

---

The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. It is not possible to invest directly in an index. NYSE Group, Inc. (NYSE:NYX) operates two securities exchanges: the New York Stock Exchange (the "NYSE") and NYSE Arca (formerly known as the Archipelago Exchange, or ArcaEx®, and the Pacific Exchange). NYSE Group is a leading provider of securities listing, trading and market data products and services. The New York Mercantile Exchange, Inc. (NYMEX) is the world's largest physical commodity futures exchange and the preeminent trading forum for energy and precious metals, with trading conducted through two divisions – the NYMEX Division, home to the energy, platinum, and palladium markets, and the COMEX Division, on which all other metals trade. Nikkei 225 (Ticker: ^N225) is a stock market index for the Tokyo Stock Exchange (TSE). The Nikkei average is the most watched index of Asian stocks. The Shanghai Stock Exchange Composite Index is a capitalization-weighted index that tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange. The MSCI World Index is a free-float weighted equity index that includes developed world markets, and does not include emerging markets. The Dow Jones STOXX (Price) Index is a broad based capitalization-weighted index of European stocks designed to provide a broad yet liquid representation of companies in the European region. The FTSE 100 Index is a share index of the 100 most highly capitalized companies listed on the London Stock Exchange. The DAX 30 is a Blue Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The CAC-40 Index is the benchmark tracking index for the Paris Bourse, comprised of the 40 largest and most liquid stocks trading on the exchange. These views are those of Peter Montoya Inc., and not the presenting Representative or the Representative's Broker/Dealer, and should not be construed as investment advice. All information is believed to be from reliable sources; however we make no representation as to its completeness or accuracy. All economic and performance is historical and not indicative of future results. The market indices discussed are unmanaged. Investors cannot invest in unmanaged indices. The publisher is not engaged in rendering legal, accounting or other professional services. If other expert assistance is needed, the reader is advised to engage the services of a competent professional. Please consult your Financial Professional for further information. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. These views are those of Peter Montoya Inc., and not the presenting Representative or the Representative's Broker/Dealer, and should not be construed as investment advice.

---