

## Weekly Commentary March 16, 2009

### The Markets

It's about time.

Last week, the stock market, as measured by the S&P 500 index, staged its third-largest weekly gain since World War II, according to Reuters. The gain was partially attributed to the following good news:

- Banking behemoths Citigroup, Bank of America Corp., and JPMorgan Chase & Co., all announced that they were profitable in the first two months of 2009, excluding one-time charges. Shares of Citigroup and Bank of America Corp. responded by rising 73% and 83% respectively for the week, according to Associated Press.
- General Motors said it wouldn't need the latest \$2 billion installment of bailout money because its cost-cutting plan was taking hold, according to Associated Press.
- The widely watched Reuters/University of Michigan consumer sentiment poll ticked up slightly in early March, according to MarketWatch.
- The Commerce Department reported that February retail sales were not as bad as economists feared and the January numbers were revised substantially upward.
- General Electric received a credit rating cut last Thursday, but it was not as deep as some expected and the stock rose 13% that day, according to *The Wall Street Journal*.
- A number of well-known market analysts, who had previously been stock market bears, adopted a more bullish posture last week. This list included Doug Kass, Marc Faber, Steve Leuthold, and Barry Ritholtz, according to Yahoo! Finance.
- Prices for copper and scrap steel have risen recently, which suggests there's demand from manufacturers, according to *The Wall Street Journal*.
- Oil prices are up 23% in the last four weeks on signs that demand may be firming, according to *The Wall Street Journal*.

So, if you look hard enough, you can find reasons for optimism even amidst the despair. We'll be watching for more clues this week to see if this is just a blip or the start of something big. Let's hope for the latter.

Returns through 3/13/09	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrial Average	9.0	-17.7	-39.6	-13.3	-6.5	-3.2
NASDAQ Composite	10.6	-9.2	-35.3	-14.2	-5.9	-5.2
Standard & Poor's 500	10.7	-16.2	-41.3	-16.2	-7.3	-5.3

Sources: Yahoo! Finance, Barron's. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. Three-, Five-, and 10-year returns are annualized. Assumes dividends are not reinvested.

**HOW DO YOU DETERMINE THE DIFFERENCE BETWEEN** a bear market rally and the start of a new bull market? Last week's huge 10% rally still left the S&P 500 index slightly more than 50% below its October 2007 all-time high. Can we confidently say that we're now off to the races and we'll start reeling in that 50% decline?

Reasonable people can certainly disagree on whether last week's move is a head fake or the real deal. Let's look at some history to see if it will help us reach a conclusion. Comparisons to the Great Depression seem to abound these days so let's start there and see if there were any head fakes. Of course, past performance does not guarantee future results. All data comes from Bespoke Investment Group.

The Dow Jones Industrial<sup>1</sup> Average reached a peak of 381 on September 3, 1929. Few people had any idea what was to unfold next. Just 71 days later, the Dow had plummeted 48% and the stock market crash was in full swing. However, the Dow then turned around and by April 17, 1930, it had soared 48%. Case closed – we're now in a new bull market – right? Not quite.

By December 16, 1930, the Dow turned around again and dropped 46%. But wait, just 70 days later, the Dow was up 23%. Hold on, 98 days later, it was down 37%. But don't despair, 31 days later it was up 28%. Dizzy yet? Ninety-four days later, it was down 44%. We're far from done, though. Just 35 days later, the Dow was up 35%. And 57 days after that, it was down 39%. No need to worry, though, because 63 days later, it was up 25%. Oops, 122 days later, it was down a whopping 54%. Then we received a huge turnaround. Just 61 days later, the Dow was up 94%. At this point, it's now September 7, 1932, and after all these pops and drops, the Dow is down 79% from its September 3, 1929, all-time high. To prevent boring you with more numbers, over the next two years, the Dow experienced five more swings of 20% or more. Whew!

As you may have concluded from just looking at the large number of 20% moves up and down during the Great Depression, there were many head fakes interspersed with substantial rallies.

So, back to the question at hand, how do you determine the difference between a bear market rally and the start of a new bull market? Answer: you can't in real-time; instead, you have to wait until substantial time has passed and you can place the market's moves in historical context. Our job, then, is to take what the market offers us and do the best we can with it.

## **Weekly Focus – Think About It**

“As your faith is strengthened you will find that there is no longer the need to have a sense of control, that things will flow as they will, and that you will flow with them, to your great delight and benefit.”

-- Emmanuel Teney

Best regards,

*Jim*

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\* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

\* 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.

\* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

\* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

\* Consult your financial professional before making any investment decision.

\* You cannot invest directly in an index.

\* Past performance does not guarantee future results. Due to ongoing market volatility, current performance may be more or less than the results shown in this white paper.

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