



Client Bulletin

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FOR NOW BOTTOMING CONTINUES

Inauguration day marked a historical day in our nation's history but you wouldn't know it by stock market performance. The major indices broke below the low of last week and the drama of this Bear Market keeps on going. The good news is that this bottoming process and range-bound trading has been going on for more than three months. Historically, the longer that this sideways movement goes on, the greater will be the rally once the market does turn around. Also, in spite of all of the bad news with which we have been barraged, the market isn't that much lower.

As I mentioned in the last Client Bulletin, a statistical technical bottom in the S&P 500 is 675. That is not my expectation, it is simply a bad news statistic. A good news statistic for an upside rally in the S&P 500 is 1075. The S&P on January 20th closed at 805. Percentage-wise the bad news statistic of 675 would be about 16% down from 805. The good news statistic of 1075 would be about a 33% increase from the 805 level. By the way, the Inauguration Day, January 20, 2009 S&P 500 level of 805, reflects close to a 49% drop from the October, 2007 S&P high of 1576.

Given the enormous amount of money that is in money markets and treasuries, a move when it happens could be explosive to the upside. On the other hand, given the continual high level of investor fear and de-leveraging, we could see a further and significant selloff.

On a hopeful note, rapid and right administration moves, and a clear and persuasive explanation of those moves could be a tipping point for a positive turnaround. Specifically, a perception that we are fixing the bank problems, and fixing the mortgage and credit default issues, would go far in turning confidence and the markets around. In the 1930's, the first 100 days of FDR's administration moved the markets up about 75%, so government action can certainly make a difference.

The following chart provides you a view of what this bottoming, and sideways stock market action has looked like since October 2008.

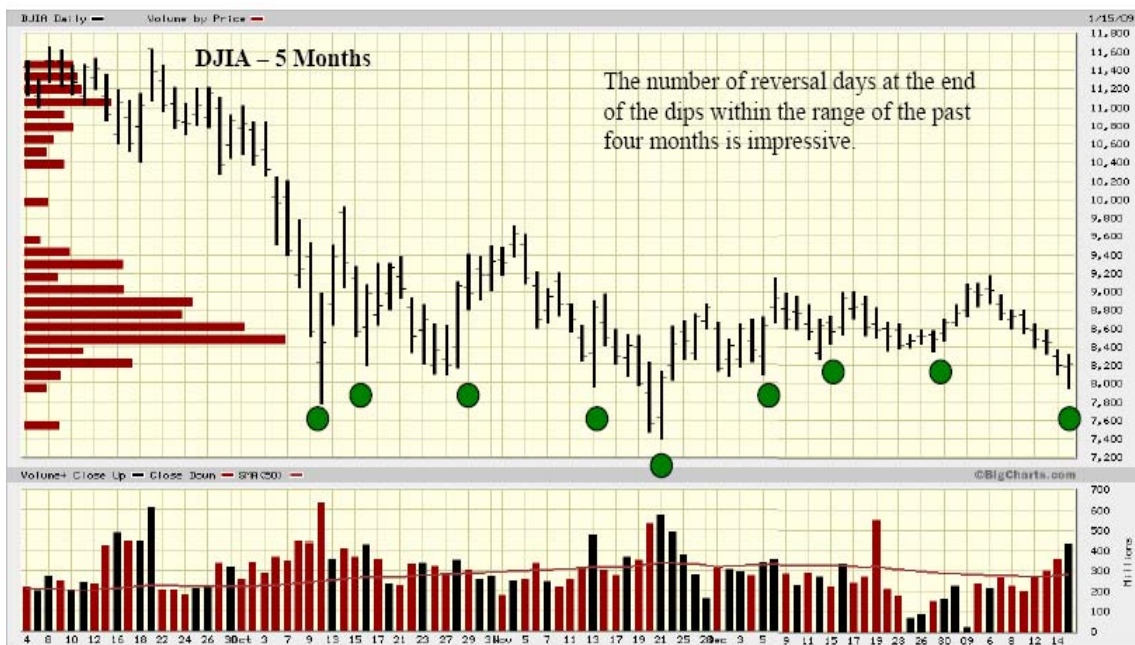


Chart Courtesy Bigcharts.com and RBC Wealth Management