Third Quarter 2009 - Market Commentary

The Global equity markets enjoyed strong performance for the 3rd quarter of 2009. The S&P 500 posted a return of 15.61% for the quarter while the MSCI EAFE Index did even better generating a gain of 19.52%. These returns were accomplished in the face of a weak economy and rising unemployment

Similar to the equity market, the Barclays Aggregate Bond Index posted impressive returns gaining 3.74% in the quarter. Corporate bonds that suffered the worst during the heat of the credit crises rallied strongly, narrowing spreads from government securities.

As market pundits have been preparing us for the "new normal" and corresponding anemic returns for the foreseeable future, we have seen back to back quarters of double digit returns. How can the equity market post such positive performance in the face of such news? While sales and earnings have yet to reverse year to year comparisons, recent earnings have consistently exceeded overly pessimistic estimates. Companies can't control the top line in the short run, but they can cut costs aggressively. That seems to be working. As inventories adjust to appropriate levels, it will become increasingly difficult for companies to manage earnings from the cost side of the equation.

As the end of the quarter approached, pressure to be invested further sustained the equity market's upward trend. The fear that permeated the mindset early in the year appears to have faded as investors don't want to miss participating in a rising market. Never have I seen fear turn to greed so quickly. The percentage of bullish investment advisors now rivals that seen at the 2007 peak. Optimism at these levels should encourage a degree of caution going forward.

Looking ahead at the fixed income market, it is difficult to get excited by current yields across the curve. With the rally in the corporate sector, and the surprising firmness in the treasury market, value has become increasingly more difficult to find. The agency mortgage market appears to offer the best relative value at this time. With the fed somewhat artificially keeping rates low, we are exercising patience and not reaching for yields that may prove to be disappointing in the not too distant future.

In conclusion, the past quarter has once again proven how difficult it is to predict the future. Over a full market cycle, individual mistakes in investment positions are inevitable. However these individual mistakes are mitigated as long as the errors are not systematic, as the combination of discipline and the law of large numbers tend to work in an investor's favor.

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