

September 01, 2009

### Six Months of Bull

Wall Street bears (“stocks are going to go down”) have taken a good old fashion drubbing from the Wall Street bulls (“stocks are going to go up”). For the sixth consecutive month, stocks have delivered positive returns. The month just ended marks the best August the Dow Jones Industrial Average (DJIA) has enjoyed in nine years, gaining +3.5% for the month. In fact, the DJIA remains in the midst of a historic bull run. The bear’s growl has been silenced to a whimper, hardly distinguishable over the din of the bull’s hoof beats.

In these extraordinary six months, the Dow Jones Industrial Average has gained almost 3,000 points or +45% and the Russell 2000 (small stock index) is up +67%. All sorts of riskier investments are showing dramatic results...from junk bonds to developing country bonds, risk is clearly in favor again on the Street. Investors’ money is again pouring back into stocks. Economists en masse are declaring the recession over. Our “too big to fail” financial firms are recording record earnings. The new CEO of AIG is about to be paid \$7 million for one year of service, regardless of results; the previous CEO was paid \$1. The lessons of the Great Recession seem short-lived.

In fact, it was a mere 180 days ago that it appeared we were at the end of the investing world as we knew it and that the global economy was almost beyond repair. FFA’s 3/1/09 commentary was titled “Is it the end of hope?” The DJIA had just finished dropping -50% over a 17-month period and was down 20% year-to-date. Investor money was still hiding in coffee cans in the backyard.

Human nature being what it is, it does not surprise us to see such a rush back to the riskiest assets. After all, they are the ones with the most recent best performance and the investment masses tend to follow the numbers. Unfortunately, the investment masses tend to get burned in the end and rushing to add money to stocks right now could be a bit like rushing to close the barn door after the horses have already been allowed to escape.

### Is the Great Recession Over?

Um, this is obviously a rhetorical question as no one can know this answer until after the fact. The same gurus who collectively called the end of the world a mere six months ago are now telling us the storm has passed.

We at FFA remain skeptical and are fairly comfortable in our belief that much harder economic and market times are coming. In fact, our conviction strengthens daily as we dig through the endless streams of data available. Yes, there is good news. No, chocolate is not unhealthy in August. However, a ship as big as the global economy takes a significant amount of time to get moving again. We believe the current optimism has brightened the rose-colored glasses of many to a point of making them sound, well, goofy.

Of course, we must not get caught up in our own hyperbole. Accordingly, the typical FFA investment portfolio is structured with a collection of asset classes that don't all react one way based on a specific economic condition. This collection of "non-correlated" assets helped us avoid the devastation that so many others experienced in the recent market implosion.

### **And You Think We Don't Make Sense?**

For no other reason than to share a classic example of Wall Street Speak, we share a comment from one of the investment gurus we monitor. Our guru (who will remain unnamed for obvious reasons) stated the following recently in regards to the market and his mutual fund:

*"Presently, about 40% of our defensive hedge in the Strategic Growth Fund is covered with what are now in-the-money index call options, so we will allow the market to put us in a more constructive position – without removing our existing downside protection – if investors are inclined to carry the market higher on the winds of questionable economic enthusiasm. The overall "delta" of the Fund is still relatively flat, but will pick up more positive exposure to market fluctuations if the market advances further. This does mean that we will stand to lose whatever we gain on a decline back down toward current levels, so the call exposure will be profitable only if the market sustains an advance. Our exposure to index calls is currently just over 1% of assets, and we are otherwise well-hedged against any serious downside that might emerge."*

Hello, FFA here. We will do our darndest to decipher what we think we heard: "Well, the market could go up and, if it does, we will make money. But, if it goes down, which it could, we will lose money." So, there you have it from a Wall Street expert.

### **Fasten the Fall Seat Belts**

September is here and history shows that a seat belt may be in order for the market ride that typically occurs this time of year. We have been blessed with some calm of late...we believe those times are about to be a warm memory. Pull the belt tight and lean on us. The ride is always a bit smoother with a guide along the way.

As always, we remain deeply grateful for your interest, trust, and confidence.

Berthann & Craig