

## Market Commentary: January 2010

The year 2009. No presidential election. No Wall Street panic. No massive stimulus package. No devastating ice storm. Nothing remarkable? Last year at this time we were hopeful that 2009 would bring some much needed relief. As far as ice storms and the stock market were concerned, we graciously received what was hoped. Even more importantly, we were very pleased and thankful for your trust and resolve as we implemented successful strategies during one of the most volatile periods in stock market history. Well done!

Though the stock market is now focused on the more mundane fundamentals of valuing companies and future earning potential, *make no mistake, last year was truly remarkable!* Some of the astonishing aspects of the year were: the stock market rebound, the globally coordinated effort of governments, the growth of U.S. debt, the rapid rise of emerging nation economies, and more innovative leaps in technology. Throughout all of this, we also witnessed a time-compressed display of investment principles. Change is inevitable, but the speed of the changes in 2009 was amazing!

After one of the worst years in Wall Street history, we saw one of the best. We cannot say that we enjoyed it as much as we were relieved by it. While many, including us, were waiting for the next shoe to drop, we cautiously and courageously applied our investment discipline. The fourth quarter ended with all of the major stock indices, U.S. and international, strongly positive. The S&P 500 and the broader Wilshire 5000 index, both gained 7%, the NASDAQ and the international index, MSCI EAFE helped by the relative weakness of the US dollar, ended the quarter 10% and 7% higher respectively. The prices of fixed income securities for the quarter mostly fell 1%-2% with the exception of Treasury Inflation Protected Securities (TIPS) which were 1% higher. The real holiday gifts were unwrapped in the 12 month figures. In stocks, the S&P 500 returned the least with 20%, the broad U.S. and international indexes gained 24% and technology was the clear winner with a 40% gain for the year. Fixed income returns were much less noteworthy generating 0.5%-1% with the exception of TIPS which yielded 7% for the year. One more metric: real estate in the U.S. and abroad was the worst performing asset class in the last three years.

The last decade, and specifically the Great Recession, has confounded many. We have witnessed asymmetric terrorism, three consecutive market bubbles (technology, real estate, credit), and a vastly more globalized stock market allowing investors to place their capital where they think it can earn the highest risk-adjusted returns. The result of the latter has been twofold: speculation has increased dramatically, and recently, the center of gravity for global investing has shifted toward Asia.

*What will the next year bring, let alone the decade?* It is impossible to know. In the face of much hope, 2010 still appears to be very fragile. The economy needs to move from a projection of growth to a demonstration of it. Clearly, unemployment is a major concern, but even the most optimistic economists see little relief until 2011. [American culture spawns innovation which has helped us break out of major unemployment waves in the past. What new industry will it be this time? Life-science technologies? Green energy? ] As for stocks, Chairman Bernanke said that the stock market at its current levels “is not misaligned with valuations” but it certainly feels as though it could be riding the wave of optimism. Thankfully, the U.S. economy itself will heal with time, but our President and other policy makers are still facing the two most daunting challenges of our time. The first is combating terrorism and the fear of it. The second must be the unwinding of the tremendous public debt that was increased to keep our economy from disaster. Undoubtedly it will take a decade or more to get our arms around strategies that will triumph over these issues.

*Though we are no longer in crisis mode, it has not been forgotten.* We know that the further we get from the shocks of 2008 and early 2009, the more diligent we must be to prepare for the next storm. Therefore, we are reviewing with you the lessons we learned, looking at the challenges that remain, and planning to take advantage of opportunities as they arise. Our belief for the coming year is we are likely to see more of the same: more bubbles, more global speculation, all with increased opportunities where investors will be rewarded for using sound strategies with discipline.

The world’s investment market, like the universe, is ragged. There is no simple solution. If only there were. And yet when we look at the evidence, we are reassured of our planning methods and investment strategies. There are always obstacles to growth and periods of crisis, but the capacity of people and markets to reinvent themselves and adapt is often underestimated. The characteristics of innovation and perseverance will most certainly make the year, and the decade, one of the most prosperous times in history.

We look forward to seeing you, advising you, and experiencing together the success to come. Always, we want you to know how much we appreciate your trust. Thank you.

*“The only people who achieve much are those who want knowledge so badly that they seek it while the conditions are still unfavorable. Favorable conditions never come.” C.S. Lewis*

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