

Q2 2009 Market Commentary (Excerpt)

August 12, 2009 S&P500 Index 1005

After two market sell-offs, the world-wide stock market and corporate bond rally has continued unabated, with frenzied buying in many areas as mutual fund and professional money managers continue to throw hundreds of BILLIONS of \$ at the markets in a desperate attempt to buy in and catch up in performance. The same people that were desperately selling when the S & P 500 was at 800 and in free-fall on the way down, are now chasing it higher with their panic buying at the S & P 500 crossed 900 and then 1000. The absurdity is epic as is the unprecedented world-wide government manipulation of financial markets by enacting programs to buy “toxic” assets, loan money, refinance mortgages, give away money, bailout failing corporations, guaranty the value of some money market funds (through December 31, 2009), increase the level of FDIC insurance and, most importantly, changing accounting regulations on how to value assets. The best analogy is to imagine that a professor that is giving a test to his/her class and, realizing that the students haven't bothered to study (or in some cases even show up for the exam), decides to progressively lower the number required to give a passing grade. The passing grade starts at 60%, then is lowered to 50% as he starts to grade the exam, then to 40%, then he lets the failing students come back and CHANGE their answers on the exam before continuing to grade, then drops the passing grade to 30%, and finally, says, I am going to suspend grading the exam so that none of you will fail, as long as you promise to study **NEXT** time. I will provide you with tutors, tell you the questions on my next exam and then you can bring in someone to help you take the next exam.

Naturally, the “real” results of the grades on such an exam are meaningless, but rather than accept that fact and change their behavior, both the students and professor wildly celebrate the passing grades and believe that they are all great students, even as the “partying” begins anew. UGH! This flawed analogy pretty well describes the astounding government manipulation of the economy and financial markets and the bizarre and reckless behavior of the large professional money managers in the face of major market and economic problems that have not yet been fully dealt with. But as with anything that works on human psychology, “perception is reality”, and we are still in the euphoric rally phase because the worldwide financial system has not crashed, so stocks are and other assets are being bought indiscriminately, and buying begets more buying, until the buying stops and the selling starts.

Fortunately, there are MANY ways to invest to potentially take advantage of inflation, rising interest rates, a recovering economy, rising commodity prices (like crude oil and gasoline), and the widely differing investment opportunities around the world, and this is what I am here to help you with. Rallies and sell-offs in the “new markets” are rapid and violent and 15-20% moves in the major market indices now take place in DAYS rather than months, and 10-15% movements of large industry sectors like banking or oil services can and do regularly occur in a SINGLE DAY!, thanks to the astonishing rapid ability of computers to electronically move \$50 - \$100 BILLION dollars of money around the globe SIMULTANEOUSLY in just a FEW MINUTES! This means that you, as an investor, must be flexible in your investment strategy and be prepared to act IMMEDIATELY as market conditions change.

Even though we are in recession, the government reports are still awful (but improving) and the cumulative effects of the “consumer and homeowner recession” have not yet been fully felt, the stock market bull market will continue as more and more money gets pumped in, in the anticipation of future economic recovery and as those left-behind in performance, continue to chase the rising market, pushing it higher still.

Please understand however that this new bull market created on the back of massive unemployment, staggering government debt and epic financial mismanagement, is NOT the type of “secular” bull market that existed in the early 1980’s and again in the mid-late 1990’s and which continued for many years. This is a much shorter-term or “cyclical” bull market since the world economy is NOT sound, the foreclosures and government debt are at all time record levels, asset values continue to fall, and business are looking to cut costs and jobs rather than actively planning to expand.

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