

October 2009

Lest We Forget

The markets have been strong since mid-March, increasing some 3400 points. That's a feel-good number. Hark back, however, to a year ago when the market fell some 800 points in one day. Remember that feel-bad time? Of course. The current rally could be wiped out by a few days of depressive pessimism. The markets have clawed their way back, but one really (really) wants to know whether the gains are merely internal gains, resulting from the trading itself or from the re-appearance of esoteric products that got us all into such terrible trouble. The Question of Questions becomes: will the economy—production and consumption—support over time such gains as we're enjoying. Or are we living an illusion?

Resilience and tenacity are great traits. The US economy's resilience is now being tested. Meanwhile, the citizenry, nothing if not hopeful and tenacious, tries to grasp the past year's events. Some, wanting to assign blame, wonder, for example, why the Treasury Secretary and Federal Bank chairman still have their jobs when they should have foreseen the coming crisis. I prefer to look at what they did when the crisis hit, and I applaud them and their counterparts throughout the world. The severity of our condition was every bit as bad as the 1930s; yet lessons had been learned and, so far, the right steps have been taken to confine the damage to 12 months rather than 12 years.

Back to today: the markets have risen to within striking distance of 10,000 on the Dow. My indicators were below 20 in mid-March and have now moved to above 80, a rare altitude for this indicator, but here it is for the second time in six years. Last time it remained above 80% for about five months. There was a little movement every month, about 2%, right into the following year. It may be tracking that way again, and though we professionals are all trained like Pavlov's dog to fear October, this year could be like 2004, when the market inched up month after month.

The financial industry as a whole is sitting on untold sums of cash just now. This translates as lots of willing buyers for both stocks and bonds, should the current pattern continue. In the meantime, however, it is difficult to hang in there with equity positions on those days when the market goes down 75 or 100 points. Hey, we've just begun to get some of our money back. The last thing we need is to lose it again.

So I'm cautious, like numerous others in the business. I continue to hold a fair amount of cash in many accounts. Our prospects appear much sunnier than they did a year ago. But part of the challenge and fascination lies in detecting the difference between appearance and reality. I will continue to monitor my primary indicator closely, on guard against possible deterioration. Is that what we see coming down the road, as September turns into October? Deterioration? Or is it . . . wait a minute . . . the Great Pumpkin?