November 2009

10 Grand

The Dow Industrial Average first closed above 10,000 in March, 1999. Over the next ten years it zoomed to14,000 and plunged to 6500. It closed (you probably noticed) above that magic 10 Grand a couple times last month . . . a definite feel-good event that says much about the distance our recovery efforts have brought about since this time last year. I know I have said it several times in these newsletters, but it bears repeating: **our economy was on the brink of disaster 12 months ago.**

The entire boom and bust we have seen in this most recent cycle of the market has been related historically to market behavior in the 1930's. The comparisons are fair and worth studying. (One of the primary reasons Ben Bernanke was so valuable as Fed Chairman during this period is because he is a student of the depression.) The current rally in the stock market has been more robust and longer in duration than the 1930's counterparts. The market may now be in need of a rest.

Here's how it looks to me. The main equity risk indicator I follow, in positive latitudes for eight months, has recently swung around. Last month I told you that this indicator had moved from 18% in March, when the rally began, to the rare territory above 80% in September. It has now reversed and we are seeing numbers below 70%, an indication of noteworthy change in the marketplace. In response, we shall shift to a wealth preservation stance, a defensive posture, with this mindset: we'd rather give up opportunity than give up money.

Defensive periods mean tough roads; negotiating them requires discipline. The discipline I follow is called Point & Figure methodology: a rational way of measuring the imbalances between supply and demand in the markets. As I navigate through offensive and defensive markets, my little mantra hums in my head: "What is, is." Impossible complications, cross currents that appear to have cross currents of their own . . . our role is to sit down with a pad and pen and weigh objectively the positives and negatives. Success in investing isn't derived from knowing where the market will go—no one knows—but from simply assessing the prevailing winds and aligning our sails accordingly. The best we can do is try to shift the odds in our favor. Over time, that can have a major impact. Whether we'll make 10 Grand our floor rather than our ceiling depends upon the choices millions of us make.

If you're thinking of year-end donations, here's one to consider. The Family Development Account program, as it's called in Maine, helps low-income workers save money to go back to school, buy a house, start or build a business, while providing a two-to-one match of savings. In Maine, donors get a 50% state tax credit. I can tell you more about this program, available in other states under the title Individual Development Accounts. Call me.

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