



First Quarter 2009 Investment Report

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A Glimmer

After a miserable February and early March, wherein the markets made a sixth new low since it peaked in October 2007, something interesting happened. The market actually went up. In fact, in twelve trading days, it moved more than 20%. That is the S&P 500's greatest bounce in the shortest time since 1938. Should we be excited, or leery, or just continue to hide under the bed? Perhaps a bit of all three. During the last three weeks of March, there were also a few surprising news items that got the market's attention. Among them were:

- Citigroup announces profit for the first two months of 2009.
- New and existing housing numbers positive for February.
- Retail sales and personal consumption reports suggest growth in 1st quarter '09.
- Rapid liquidation of February's business inventories reported.

Clearly, there was other economic news that was not so cheery, but the markets showed some optimism with a quick upward response. So, is the worst over? Is the bottom in? Has the new bull started? You already know that answer. We won't be certain for many more months.

As has been stated ad nauseum, in this report and elsewhere, recessionary bear market bottoms occur four to nine months prior to the bottoming of the economy. That's why attempting to time the bottom of a bear market by watching TV or reading the newspaper just won't work. Often we are asked if there is a better method of dealing with bear markets. Would it be better to sell out of equities, sit on the sidelines in cash, and jump back in when one is certain the bull market has started, even if you miss the first several months of the new bull? Recent financial research shows the futility of this technique.

Below is a chart which shows the average monthly compounded return for periods of time **after** the market cycle has bottomed. A full market cycle is measured from peak to peak, starting in 1929. There have been 16 such complete cycles since that time. The chart clearly shows that the first 3 to 6 months of the new bull market have dramatically higher returns than any other time frame in the bull cycle.

Average **Monthly** Compound Returns

(CRSP Value Weighted Market Index)

	9/1929 - 10/2007
	(16 cycles)
First 3 months after market bottom	5.7% / mo.
First 6 months after market bottom	4.0% / mo.
3 months after market bottom to peak	1.8% / mo.
6 months after market bottom to peak	2.0% / mo.

Data: Center for Research in Security Prices, University of Chicago

For example, the average monthly return for the first 3 and 6 month periods of a new bull market are 5.7% and 4.0%. The average monthly return for the entire remainder of the bull market after those initial 3 and six month periods are 1.8% and 2.0% respectively. This clearly shows that if you miss being in the market for the first three and six months of the bull market, you miss the quickest and easiest gains of that entire cycle. Because the bottom of the market cycle occurs earlier than the bottom of the economy, there is no way to gauge the best time to jump back into the market. Consequently, the only way to receive the attractive returns of the early stages of the up cycle is to be there when it starts. That is why we advise our clients to hold their positions and not jump in and out in an attempt to guess when the new bull market starts.

Damn Those Socialists!

Whether you get your information from *Newsweek*, Fox News, *The New York Times* or hundreds of other sources, you have undoubtedly seen the term socialism used more in the past few months than any time in recent memory. The term was not used in a "good" way. More than a few authors and talking heads have started to compare the new administration's policies to other countries that have a much greater tilt towards socialist tendencies. The end result of this new labeling appears to be a fear that if this trend continues, our stock market, and consequently, investor portfolio performance, would suffer greatly.

We thought it might be interesting to review some historical stock market data from other industrialized countries and see how they compare with America's. Just how have the stock markets performed in those countries that have: huge amounts of mandated vacation time, nationalized healthcare, expensive cradle-to-grave social programs, dramatically higher income tax rates and even permit legal prostitution and marijuana use?

DFA Inc. scanned the MSCI data of all industrialized countries (which includes Canada, all Scandinavian and European countries, the UK, Hong Kong, Singapore, Australia and New Zealand). Surprisingly, over the last 10 years, measured in US Dollar terms, America came in 20th out of 23 countries on the list. In local currency terms, the US came in three spots better. But either way, the US underperformed many countries whose governments had meaningfully more influence on their country's business regulations. If you go back further and review the first data collection (18 countries started 39 years ago), you find that the US ranked 15th out of the 18 countries that have reported data during all that time period.

Market returns in Sweden, Denmark, Netherlands, France, Spain and Canada (all clearly more "socialist" than the US) and many more all topped the US. This seems to suggest that an industrialized country's economic or social policies might not mean all that much to their market returns. The moral of this story is that one should not assume that the degree of government intervention should be the only yardstick used when determining expected stock returns. Investors should absolutely not believe that a country's degree of "socialism" is the principle factor in determining their portfolio's performance. You are, however, still allowed to dislike the French.

Money Can't Buy You Love

But it can get your name on a building. Last fall, David Booth, a University of Chicago - Graduate School of Business alumnus, gave a \$300 million dollar gift to his alma mater. It was the largest gift in the school's history, and promptly led to a name change: *The University of Chicago Booth School of Business*. We relate this piece of news because David was a co-founder of Dimensional Fund Advisors Inc. (DFA Funds) in the late 1970's, and was instrumental in developing the unique asset class funds that we use as vehicles for many of the asset classes used in your portfolios.

David Booth is clearly a brilliant man, and a rich man. But the main purpose of this information is to show the relationship that DFA has with this business school. Chicago boasts more Nobel Prize winners in Economics' than any other school in the world. Since DFA uses many of UC's (and other top business school's) professors and their research in developing DFA funds, we thought the extremely close relationship that Booth and DFA and UC's business school continue to have was very interesting. Perhaps money can't buy you love, but it may just help your long term portfolio performance for years to come.

First Quarter 2009 Asset Class Returns

The chart below shows what we all knew: the first quarter of 2009 brought the market to its lowest point of this bear market. All asset classes were affected; however, looking carefully, you may notice that the classes that got pounded down the most during the last year and half had a better time of it this last quarter. International Small Caps and Emerging Markets have gone from the worst equity performers to the best this last quarter. Otherwise, Domestic Growth seemed to out perform Value on both sides of the ocean. Even Income suffered losses due to slightly increasing interest rates during the quarter.

	1st Qtr
S & P 500	-11.00%
Large Cap Value	-16.79%
Medium Cap	-8.48%
Small Cap	-13.49%
Small Cap Value	-17.39%
Micro Cap	-16.13%
Real Estate	-32.08%
Intermediate Income	-0.76%
Long Term Income	-6.16%
Int'l Large Cap	-14.02%
Int'l Large Cap Value	-16.15%
Int'l Small Cap	-10.76%
Int'l Small Cap Value	-13.18%
Int'l Emerging Mkts	0.07%
Int'l Em. Mkts Value	-2.36%
Int'l Em. Mkts Small	-1.44%
Pacific	-13.78%
European	-16.81%
Int'l Real Estate	-17.05%

Vanguard Group and DFA, Inc.

The most interesting part of the quarter remains hidden in the monthly figures. Looking at the month of March, which marked the low point of this bear market on March 9, we can see that a dramatic shift took place thereafter. As was discussed in the beginning of this report, there can be no guarantee that the bottom of the bear market has occurred. Clearly, however, this was a meaningful trend change. Only with additional time will we know if March 9th was the bottom. In the meantime, our clients can be certain that they will have been invested properly and will fully participate in the new bull market, whenever that occurs. We will not have to try and guess which of the many bear market bounces are fakes, and which one ultimately is the birth of the new bull.

<i>March 2009 - A Turning Point?</i>	<i>3/1/09-3/9/09</i>	<i>3/1/09-3/31/09</i>
U.S. Large Company	-7.86	8.77
U.S. Large Cap Value	-12.01	9.83
Small Cap Portfolio	-12.05	10.30
Small Cap Value	-13.11	10.40
International Large Value	-10.42	10.86
International Small	-5.94	6.62
International Small Value	-6.67	6.52
Emerging Markets	-3.33	14.45
Emerging Markets Value	-3.97	17.30
Emerging Small	-3.39	13.76

DFA Inc.

This spring promises to be an interesting one -- on Wall Street as well as your back yard. Get outside and enjoy the change of seasons.

Sincerely,

Dixon Hughes Wealth Advisors