



## Markets Stall Awaiting Economic Recovery

**Monthly Outlook: December 2009** The global equity market rally that started back in March has been stalling out these past 3 months as investors await confirmation of the hoped-for economic recovery. Yes, the headline market indices like the DJIA 30 or the S&P500 have managed to eke out small net gains over the past 3 months, but they mask the broader market. Using our Trend Indicator, a measure of what a market is actually doing, we see clearly a mixed bag of up-trends and down-trends as we enter the last month of the year. For example, Bonds, US Large Caps, Europe, Emerging Markets, Commodities, and US REITs are still up-trending, but Munis, US Small Caps, Japan, and International REITs are down-trending. This turbulence is usually indicative of a market at the crossroads, awaiting a “sign” as to whether the trend continues or reverses. Our goal is stay on the right side of the trend in each of the markets we invest in and that can mean more trades during this turbulence before a real trend emerges. But that’s the only way to ensure that we

don’t miss a meaningful up-trend and yet protect against any significant down-trend. The chart, below, depicts the year-to-date for the Vanguard Extended Market Index – a broader view of the total stock market. You can see that it ends November about the same level as it was at the end of August. You can also see that the price has flip-flopped below and above the red “trend line” a couple of times in the past two months, and that it has most recently changed (again) to be below the trend line. What we know for sure is that ALL down-trends must first start with prices dipping below the trend line as they are now. And, conversely, ALL up-trends must first start with prices moving above the trend line. We’re trading and doing our best to keep up with these fast changes so that we don’t miss the next big move – whichever direction. We diversify our portfolios with the hope that at least some of the holdings are up-trending for growth. Our discipline also explicitly includes a plan for down-side protection – and we’ll sell or trim when it’s time. Grow & Protect.

