



Global Equities Start Downtrend (~ -4%) in January - Caution

Monthly Outlook: February 2010 January is always a closely watched month in global markets. It's a new year and optimism prevails. Companies are busy reporting 4th quarter earnings and analysts are busy making year-ahead rosy forecasts. The US President makes his State of the Union address and even the days are getting longer (at least in the northern hemisphere where most of the world's markets are). As we start 2010 we should try to harness this optimism and keep it the whole year, at least in how we live our lives. But how we manage portfolios, at least around here, is a lot more pragmatic. We diversify globally using low cost & efficient index funds, and carefully follow the factual trends of each market to know when to be fully-invested for growth or under-invested for protection. Trying to figure out *why* markets trend up or down is difficult at best. Many investors study company financial statements and management outlooks. Others analyze broader economic data points like interest rates, unemployment and house prices. Some with no clue even watch Cramer on CNBC. But trying to figure out which way the markets will respond to a given report is impossible to guess. This reminds me of the joke recently retold by one of our favorite economists, David Rosenberg, "Why did God make economists? – So weathermen feel better about themselves." The weather, economy, and stock prices (in ascending order) are all too hard to *predict* consistently. But it's not as difficult to analyze what stock prices *are* doing. Our job, then, is to try not to get too caught up in the guessing but to carefully track what the trends are actually doing (even if we can't justify the trend with a fundamental reason temporarily) and to invest accordingly. In 2010 we're going to try to use these *Outlooks* to talk more about the markets and less about the economy.

So how are "the markets" trending and how should we be invested? US Investment Grade Bonds continue to hold up in spite of inflation worries. It seems the need for income combined with continued

DE-flationary impacts from the credit bubble collapse are more important for now. International Bonds, however, are suffering a steep downtrend as the \$US dollar has reversed its slide and has started to rally against many analysts predictions. Commodities & REITs, too, have turned down. The big story in January 2010 has been the new downtrend for all global equity markets. We first saw weakness in Emerging Markets, then Europe, and finally US Equities. Perhaps earnings aren't quite as strong as hoped, perhaps political instability is growing, or perhaps prices were just ahead of the fundamentals. Whatever the rationale, global equity prices are definitely down-trending for now and so we've sold and moved back to "protect" mode. Below you can see a 6-month chart of the S&P500, a good proxy for



the US stock market. Although the chart is small, the point is that you can see the red trend line and how the trend has recently turned to a down-trend in January and is signaling caution. A down-trend can result in just a short-term sideways pause, or it could be the beginning a big bear market. But either way, it can not result in price gains before an up-trend signal occurs. We're now looking for that up-trend signal and are anxious to find some growth, but we have to work with what the global markets give us. The worst action to take would be to try and force growth by buying equities here just as the down-trend is starting. We'll sit out the down-trends and the losses.