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What is a long-term perspective? It often seems to be determined by what is taking place at the time. In late February, long-term seemed to be the next few months. It appeared that the market was on its way to somewhere just above zero, so nobody cared about the next few years. In times of extreme uncertainty, investors only want treasury bonds. They didn't seem to care that they would only earn 3% for the next ten years. If you were considering the long-term perspective, was that really a good deal? With the benefit of hindsight, we now know that what appeared safe, buying treasury bonds, was not. Since March, the return for 10-year treasury bonds has been negative, while the return for stocks has been phenomenal. Over a more extended time period, however, returns for stocks has been far less attractive.

The market first breached the 10,000 mark in 1999. From October 25th of 1999 to October 25th of 2009, the stock market has registered an 8% decline not including dividends. The 10-year treasury for the same time horizon has earned a 6% coupon. According to the Financial Times, returns going back 40 years from the March lows also favor bonds. With the market having such a lackluster performance, it would be easy to dismiss it, and project the future to be just as unappealing for stocks.

The long-term perspective would suggest just the opposite. When returns are so miserable, history shows the periods directly following are much better. The very fact that returns have been subpar, almost automatically implies that prices are attractive. When the market first broke the 10,000 barrier in 1999, the economy was about \$9.3 trillion. The economy is now up to \$14 trillion, but the Dow is still at 10,000. Using the economy as a valuation guide, the market is about 50% cheaper than it was in 1999. Even if you believe the market was 50% overvalued 10 years ago, today's

market is positioned to do much better since it is at least 50% less overvalued. Of course the short-term perspective suggests there are reasons why the market is now cheaper.

Arguments abound as to what will effect the next ten years. We all know about the debt situation. It is encouraging to see the Treasury finally taking a longer-term view. The average maturity for treasury debt is about 45 months. They now intend to extend the average maturity out to 72 months. This seems like such an obvious move - borrow long when rates are low. This cuts the country's interest rate risk, potentially lowers the cost of the deficit in the later years, and cuts the supply of treasury debt being sold in later years when the market may demand higher rates. The best solution to our debt problem may come from the source that created it. When a topic becomes a top political debating point, it tends to get addressed. Concern over our national debt is rapidly heading to the top of the list.

One of the problems with taking a long-term viewpoint is that there is a lot of noise in daily life, which almost always never matters to the actual long-term outcome. Time has a way of only focusing on the core underlying fundamentals. The markets have become very emotional lately, and our economic welfare seems to be on a roller coaster. However, companies are reporting earnings that are beating expectations on average. They have been cutting costs aggressively, so they are positioned well to show continued earnings gains. This does not mean we are out of the woods yet, but it is also dangerous to use the last year's events as a proxy for the next ten. If you are concerned about the market's next 1000 points, it is 50/50 whether it will be up or down. But you can be absolutely certain that the next 10,000 points will be up.