



JANUARY 2008 MARKET UPDATE

As we mentioned in our year-end report, there is a good chance that the US is headed for a recession if we are not already in one. A recession is generally defined as two consecutive quarters of negative GDP growth. The National Bureau of Economic Research officially decides when the economy is in a recession and it usually does not make that determination until well into the downturn. For example, it did not decide the last recession began in March 2001 until November of that year.

Many indications in January seemed to point to a general economic slowdown. The stock market as measure by the S&P 500 has dropped 6%. Interest rates fell across the board, housing markets are stagnating, and unemployment is increasing.

So why are we not advocating selling all our stock positions? The problem lies in the stock markets reaction to a recession. As the chart below shows, stock markets usually anticipate a recession several months before they occur and often rebound well before the economy begins to recover. Additionally, when the stock market does bounce back it often does so in a matter of days and participation in these rebounds is important to long-term portfolio growth.

Recession period	Percentage Return		
	6 months before	During Recession	Six Months After
Jan. 1980 -July 1980	5.8	5.8	18.8
July 1981 - Nov. 1982	-3.8	1.9	23.0
July 1990 - March 1991	-0.5	2.5	7.7
March 2001 - Nov. 2001	-18.3	-8.1	-6.3

Source: Standard and Poor's

In short, this chart of the last four recessions shows that stock declines usually occur well before that actual start of a recession and that stocks often begin recovering well before the recession is over. Taking a longer view, Ned Davis Research looked at the last ten recessions and found that the stock market rose an average of 24% in the six months after hitting a recession low. These data points re-affirm the difficulty of market timing and the value of keeping a steady hand, even in the face of tough times.