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**Is This Stock Market Rally Too Much Too Soon?
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The recent stock market rally has many experts asking the question: Is this stock market recovery too much too soon? Since the market bottom in early March 2009, major stock market indices are up 60% or more. Small and mid-cap stocks are up 80%.

Asset Class	Top-Bottom	Date	Months	Recovery	Months
S&P 500	-56.4%	10/07 to 3/09	17	+59.9%	8
International	-63.2%	7/07 to 3/09	20	+79.8%	8
Small-cap	-59.5%	7/07 to 3/09	20	+80.8%	8
REIT	-76.5%	2/07 to 3/09	25	+99.9%	8

The worst stock market decline since 1900 was the drop from 1929-1932 of 86%. The most recent drop ending in early March was the second worst decline, which came only seven years after the third worst decline of 49% in 2000-2002. Two of the three worst bear markets since 1900 have occurred in the current decade.

So how does the latest stock market recovery compare with previous bear market rallies? One year after the bottom of the 1929-1932 bear market, the stock market (S&P 500) rose 172%. A year after the 2000-2002 bottom, the S&P 500 snapped back 34%. As mentioned earlier, as of October 19, 2009, the market has improved 60% or better from its March 9 low. However, breaking down the bear markets since 1900 into “severe” bear markets (down 45% or more) and less severe (down less than 45%) gives an interesting perspective. The performance of the S&P 500 one year after a “severe” bear market low has averaged approximately 62%. One year performance after less severe bear markets shows an average of 37%, significantly less than what would be expected following a more severe decline. The year 2009 points to an average 12-month rally following a severe bear market.

The best case for stocks to continue rising over the next 24 months is for global monetary and tax policies to remain constructive for steady and consistent GDP growth. The result would be for improved corporate revenue, rising tax revenues, and tighter employment. Inflation would need to be proportional to economic growth and investor uncertainty would gradually decrease with an increased appetite for risk. This describes a perfect investment/economic recovery period.

The worst case is an unexpected event of great proportions that throws investors and consumers back into a high state of fear. A series of bank failures in the magnitude of 1,500 institutions would certainly be such a period event. A collapse of several central banks on the magnitude of Mexico and Argentina could trigger a major liquidity squeeze, forcing global intervention.

The recent rally is in line with previous “severe” bear market rallies. Investor appetite for risk has increased since March, in advance of the third quarter earnings season. However, credit conditions do remain unfavorable and may be the single largest negative factor for a sustained economic recovery.