



Retire On Time
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Annual Market Review: December 31, 2009

Annual Market Review 2009

The aftershocks of the 2008 financial crisis spilled over into early 2009, and just when things seemed that they couldn't get any worse for the equities markets--they didn't. A powerful stock market rally--10 straight months without a 10% correction--defied skeptics by lasting longer than many expected. Overseas markets outpaced the broad U.S. indexes (though not the Nasdaq). However, the Dow, S&P 500, and Nasdaq still ended 2009 lower than when the decade began.

Record low interest rates and less bank lending brought high levels of debt issuance by corporations and local governments. Despite Federal Reserve purchases of Treasury bonds, massive Treasury debt and concerns about the dollar helped push the yield on the 10-year Treasury up substantially from a year ago.

As the U.S. deficit rose, gold saw renewed interest; from its January low, the spot price shot to a record high of more than \$1,200 an ounce at one point. Oil prices rose substantially from a February low of \$35 a barrel to \$81. Dollar weakness over the year generally was equities-friendly, as investors dissatisfied with low interest rates on Treasuries--at one point, some Treasury bills traded with a negative yield--turned to other asset classes.

Economic Data/Currencies

Data	Current	Year over Year	Notes
Consumer Price Index (CPI as of 12/16)	+0.4%	+1.8%	First 12-month increase since February 2009
Unemployment rate (as of 12/4 for November)	10%	+3.2%	11,000 jobs lost in November were a tenth of the previous 3-month average
Gross Domestic Product (GDP) (as of 12/22 for Q3)	2.2%		Follows four quarters of contraction; Q3 2008 GDP was -2.7%
As of December 31, 1 euro equaled:	\$1.43	Dollar -1.7%	2009 dollar low: \$1.51; high: \$1.25
As of December 31, \$1 equaled:	¥92.24	Dollar +2.1%	2009 dollar low: ¥86.39; high: ¥100.81

The Markets

Market/Index	End of Quarter	Quarterly Change	Year Over Year
DJIA	10428.05	7.4%	18.8%
NASDAQ	2269.15	6.9%	43.9%
S&P 500	1115.10	5.5%	23.5%
Russell 2000	625.39	3.5%	25.2%
Global Dow	1984.48	4.7%	30.0%
Fed. Funds	.25%	0	0 bps

2-year Treasuries	1.14%	19 bps	38 bps
10-year Treasuries	3.85%	54 bps	161 bps
Crude Oil (per barrel)	\$79.36	12.6%	77.9%
Spot Gold (per oz.)	\$1,092.10	8.4%	24%

The Year in Review

January

As a new presidency began, unemployment hit 7.2%; massive layoffs eliminated 741,000 jobs in January alone. The bleeding in the equities markets that began during the fall of 2008 carried over into the new year. Congress agreed to release the second half of TARP funds to help combat the credit crisis.

February

Congress passed a \$787 billion economic stimulus package, while President Obama announced an additional \$75 billion plan to help struggling homeowners and a \$3 trillion budget proposal for 2010. The announcement that the economy shrank for a second consecutive quarter at the end of 2008 didn't help. As U.S. stock indexes suffered day after day of significant losses, public outcry over executive bonuses at companies receiving federal bailout money led to a government-mandated \$500,000 pay cap.

March

It's always darkest before the dawn, and March was as black as it got in 2009. After a 20%-plus drop in two months, the equities markets closed on March 9 at new lows for the year--lower even than in the November 2008 panic. The S&P 500 hit 676, the Dow fell to 6547, and the Nasdaq was at 1268. At that point investors drew a line in the sand and kicked off the rally that would last the rest of the year. The U.S. Treasury announced its Public Private Investment Program to alleviate the credit crunch by helping investors buy toxic assets from banks, which would then resume lending (at least in theory). Bernie Madoff went to prison for bilking investors out of billions.

April

The inflation rate saw its first year-over-year decrease since 1955, as consumers spent less and saved more. Economic indicators from construction to retail sales to wholesale prices to industrial production to unemployment continued to deteriorate. Despite that, the equities markets celebrated (except for Chrysler, which declared bankruptcy); the S&P 500 had its best month in nine years.

May

Ten of the largest U.S. banks flunked Treasury stress tests designed to show how banks would fare in a worst-case economic scenario. The European Central Bank cut its interest rate to the lowest level in its 10-year history, and Standard & Poor's lowered outlook for the British equivalent of U.S. Treasuries rattled the bond markets. The S&P 500 and Russell 2000 hit the reset button for 2009, joining the Nasdaq in reaching positive territory for the year, leaving only the Dow underwater.

June

After a scorching spring, the rally took a summer vacation. The Dow finally caught up (briefly) in turning positive for the year (the deletion of Citigroup and GM may have helped). GM followed Chrysler into bankruptcy; U.S. government assistance would make taxpayers the new company's largest shareholder. As declines in economic indicators slowed and talk of economic green shoots emerged, bonds were hit as investors began to speculate about future interest rate increases.

July

The rally, which had taken a breather in June, resumed its upward march as cost-cutting helped corporate earnings. The Nasdaq and S&P 500 hit their highest levels since the previous November. The so-called "cash for clunkers" program was so successful that it needed a second infusion of money--and still had to be called to an abrupt halt in August, earlier than planned. Muni bond markets shivered after the state of California announced it would issue IOUs because of a temporary budget shortfall. Unemployment rivaled adjustable-rate mortgages as a factor in home foreclosures.

August

The economy shrank for the fourth consecutive quarter, though at a dramatically slower rate, and statistics continued to show an economy that might be starting to turn toward some sort of recovery. Unemployment was reported to have dropped slightly for the first time in more than a year, and home prices also began to stabilize. Anticipation of a recovery helped push oil prices to a high for the year. However, nearly one in every eight mortgages in the country was reported delinquent or behind one payment; and one-third were prime fixed-rate mortgages. Meanwhile, the equities markets continued to mark new year-to-date highs.

September

For the first time in 18 months, U.S. manufacturing activity expanded. Fed Chairman Ben Bernanke said the recession was "very likely over" from a technical (though not human) perspective. The equities markets were choppy, but on the anniversary of one of 2008's most horrific weeks, U.S. equities weren't far from regaining early September 2008 levels. The dollar and gold continued to seesaw, with gold moving upward and the dollar falling to its lowest level against the euro in a year. The market for initial public offerings (IPOs) and corporate mergers and acquisitions saw renewed interest.

October

During the third quarter, GDP finally turned positive, and the services sector also saw growth. However, the total year-to-date number of failed U.S. banks reached the triple digits. The Federal Reserve Board stopped buying Treasury securities but said it would purchase mortgage-backed securities through next spring. The Treasury announced that the U.S. budget deficit for the 2008-2009 fiscal year was \$1.4 trillion, reaching the highest percentage of GDP in more than 60 years. The Dow popped over the 10,000 mark for the first time since October 2008 (when it was headed in the opposite direction). However, new highs also brought out profit-takers, and major U.S. indexes saw their first monthly declines in seven months.

November

A 10.2% unemployment rate--a level not seen since 1983--helped permit the Federal Reserve to project exceptionally low interest rates for "an extended period." Concerns about emerging market debt grew after Dubai's investment conglomerate reported debt problems. The impact of the first-time homebuyer tax credit on home prices led Congress to expand and extend its provisions into 2010. The bankruptcy of CIT Group threatened lending to small and mid-sized businesses. India's purchase of roughly 200 tons of gold helped fuel a strong spike and record high in the spot price of gold. November also saw a rotation into large-cap stocks, while Treasuries strengthened throughout the month.

December

Unemployment figures saw their biggest drop since September 2006, and job losses were less than a tenth of the previous three months' average. The last of the major banks that got TARP money announced plans for paying back those loans. Consumer inflation was an annualized 1.8%--the first year-over-year increase since February. And after beginning December at a year-to-date low, the dollar found new strength, trampling commodities and gold in the process. After nine months in rally mode, equities generally stayed in a trading range in December.

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The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely-traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The Nasdaq Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. Market indexes listed are unmanaged and are not available for direct investment.



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