

STANDARD & POOR'S

Bear Bottoms

The market's most recent plunge has brought new lows not seen since 1997, leaving shell-shocked investors wondering when and where the bottom will occur.

Walnut Street Securities, Inc.[®]
A MetLife Company

Since 1949, bear markets have bottomed a median of five months before recessions have ended.

When will this bear market end? This refrain is all too familiar these days, as investors grapple with a series of new lows. With the major indexes having recently undercut the lows set last November, many are hoping that we have finally reached the nadir of this bear market.

But calling the timing of bear market bottom is not easy. Markets typically retest their lows at least once, and false or double bottoms are not uncommon. What's more, this bear is indeed a bear. It is the product of a triple-whammy — a

credit crisis, a housing slump, and an economic downturn that gets grimmer by the hour — with no improvements in sight.

Yet as history has shown, market cycles do not necessarily parallel economic cycles. In fact, they have generally led them. Since 1949, bear markets have bottomed a median of five months before recessions have ended, and eight months before corporate earnings have troughed and unemployment has peaked.¹

What's more, the S&P 500's price performance has foretold a recession's demise fairly consistently, posting both a mean and median average advance of six months in nine of ten observations.¹ Only during the bear market of 2002 did the S&P 500 remain in bear market mode well after the economy began to recover, possibly because the main factors that triggered the bear market were not recession related.

When will markets hit bottom? The strong likelihood of additional fundamental erosion indicates that this bear market is probably not over. But regardless of the exact timing, it is likely that equity prices will again bottom from two to four months before the recession ends, and as much as six to ten months ahead of a trough in corporate earnings and a peak in the unemployment rate.

Stocks Have Anticipated Economic Metrics

S&P 500 Bottomed	Months Ahead of		
	Recession End	EPS Trough*	Unemployment Peak
June 13, 1949	5	7	5
September 14, 1953	9	-15	13
October 22, 1957	6	11	8
October 25, 1960	4	8	7
May 26, 1970	6	7	7
October 3, 1974	6	9	8
March 27, 1980	4	6	4
August 12, 1982	4	8	4
October 11, 1990	6	15	21
October 9, 2002	-10	-9	9
Mean	4	5	9
Median	5	8	8

Sources: Standard & Poor's, National Bureau of Economic Research, Bureau of Labor Statistics. Past performance is no guarantee of future results. *S&P 500 companies.

Portfolio Strategies

With stock markets down over 50% from their 2007 highs, investors across the globe are feeling the pain. Clearly, today's unique market environment warrants special consideration.

- Don't try to time the market's bottom. Even the experts have a poor track record here, and most predictions end up being proven wrong. For example, many of the leading market gurus predicted that the S&P 500 would close out 2008 above 1500 — a far cry from its actual closing of 885.²
- In today's volatile market, take a cautious approach until there is evidence of a sustained improvement. The high volatility of the current environment calls for caution on the part of investors. Now is probably not a good time for radical changes in asset allocation or investment strategy, since there remains a high degree of uncertainty about the future.
- But don't necessarily wait for an improvement in all the economic fundamentals before getting back in the market. As noted above, economic recoveries tend to lag market recoveries, by five months on average.

Some economic indicators like unemployment can peak a full nine months or more after the market had bottomed out. And while history is never a guarantee, it does serve as a guide that the same will hold true this time around: prices will likely bottom before the fundamentals start to improve.

- For those looking to position their portfolio for an eventual recovery, consider cyclical stocks in "early-cycle" sectors. Early-cycle stocks, such as those in the technology and transportation sectors, have historically outperformed when an economic recovery is getting underway, as have small-caps. Banks and other financial services firms have also tended to prosper in the early stages of a recovery, but given the routing of this sector over the past year and the fundamental changes now taking place, investors are urged to exercise caution.

¹Source: S&P Trends & Projections, February 2009.

²Source: USA Today, 2008 Predictions for the S&P 500, January 2, 2008.

Walnut Street Securities, Inc.
13045 Tesson Ferry Rd.
St. Louis, MD 63128

A Registered Investment Adviser and
Broker-Dealer Member FINRA/SIPC

© 2009 Standard & Poor's Financial Communications, 111 Huntington Avenue, 6th Floor, Boston, MA 02199. All rights reserved. Reproduction in whole or in part is prohibited without the express permission of Standard & Poor's Financial Communications. Visit us online at <http://fc.standardandpoors.com> or call us at 1.800.326.7697.

Standard & Poor's and The McGraw-Hill Companies are not affiliated with Walnut Street Securities, Inc. For information purposes only.

L0209020202[exp0210][All States][DC,PR,VI]