

# A VIEW FROM PRINCETON

*Market Commentary ♦ April 2, 2009*

## “Sooner or Later”

The physical aspects of America seem to be in better condition than the psychological. Any rally is welcome, and asks for recognition. Indeed, rallies are a desperately required national need, not so much for lifting stock prices as for lifting attitudes. The March rally, good and helpful as it was, was challenged near the month's end by yet another wave of doubt, dismay and discord.

The table below shows the gains of March were insufficient to offset the preceding softness of the first quarter.

Name of Index	CLOSING PRICES			% CHANGE	
	12/31/07	12/31/08	3/31/09	Last Quarter	Year 2008
DJ Industrial	13,264.82	8,776.39	7,608.92	-13.30%	-33.84%
S&P 500	1,468.35	903.25	797.87	-11.67%	-38.49%
DJ Wilshire 5000	14,819.54	9,087.17	8,113.10	-10.72%	-38.68%
Nasdaq Composite	2,652.28	1,577.03	1,528.59	-3.07%	-40.54%
Russell 2000 Growth	421.18	257.07	231.51	-9.94%	-38.96%
Nasdaq Biotechnology	834.96	729.54	682.81	-6.41%	-12.63%
Nasdaq Telecommunications	256.58	146.29	150.89	3.14%	-42.98%

\*Not adjusted for dividends

Data source: Telemet

The rally of March draws attention as having been provided by: 1) buying by self-confident investors responding to such reduced valuations, 2) short-covering, 3) pending corporate acquisitions totaling above a quarter of a trillion dollars, 4) implications from widespread price bounces in materials, 5) reduced volumes of stressed share liquidations, and 6) a narrowing of risk spreads among credits. The overall patterns of stock prices have been encouraging — not effervescent; rather, supported apparently by sensed opportunities.

The recent rally would seem to represent also acknowledgement that 1) the prospects for systemic collapse have been checked by government (no more failures of big banks), 2) the valuation risks in so many drastically reduced prices of specific shares (and bonds) became much less than customary valuation risks, and 3) fear of the cost of waiting in all cash positions (and missing turning points) overrode the fear of the cost of not waiting (and getting slammed once again in prices of shares owned).

Let the rally alert one and all to the gathering evidence that financial markets entered a new phase; from a rescue phase (of financial system collapse) to a repair phase. Call this a resuscitation phase, of good days and bad days — of feeling better days, and of more grouchy days. Perhaps we have entered a period that might be designated the “sooner or later” phase. Sooner or later investors will come off the sidelines into the playing field. Sooner or later, financial markets will function normally. Sooner or later very low short-term interest rates will

permeate all aspects of financial and commercial life. Sooner or later, strength will prevail over weakness in the American economy. Rallies have the potential to breed rallies. After having suffered so much from down-sloped perverse market phases (when selling provoked additional selling, rather than buying), sooner or later, there will be upward perverse market phases (when buying provokes additional buying rather than selling).

A handful of stocks plumbed bottom in October, several handfults followed in November, and still more followed in the downbeat by early March. It was surprising to see so many electric utility shares fall in February and early March, notwithstanding lower energy costs (oil, gas and coal) and lower capital costs for this capital-intensive, debt-dependent industry. Enduring low interest costs for longer-term debt instruments are highly likely. Such a bottoming process provides assurance for increasing numbers of specific stocks, but not as yet for the broad market. Time is healing. The secret sauce is in the unobtrusive improvements in many points of finance and commerce. These are not very obvious, but if one scans intently improvements are evident.

Improvement is partially obscured by strident expressions of dissent, or of injury, or of just negative attitudes. It probably should not be surprising that strenuous dissent emanates from the very parties who created the financial mess as they endeavor to maintain their former privileges. Take discord as unwelcome symptoms that time is healing.

As always, let these comments convey our regards and our best wishes.

Sincerely,

A handwritten signature in black ink, appearing to read 'J Fitzpatrick', with a stylized flourish at the end.

James Fitzpatrick