



Volume 4, Issue 4



The (not so) Almighty Dollar

April 16, 2010

Monthly Newsletter and Update

Dear Friends, Clients and Others,

Spring has sprung, and I have watched the transition through my office windows. While admiring the foliage and watching one of my market indicators - the Norfolk Southern on which there has been a marked increase in freight traffic - I have considered year-to-date market conditions. Defying logic the market has been up sharply in 2010 but for how long?

There is still a lot of cash on the sidelines, including a chunk in my shop which is making my results look terrible for 2010 and keeping me awake at night. On the other hand, interest rates are beginning to creep up. As they do, those who were burned in the stock market over the last 10 years will be tempted to put cash into "safe" securities.

Diversification will be important over the next 10 years. The speed of change in our digital lives is increasing even faster than my personal journey from middle age into senior status which is happening all too quickly. Is it possible to find the next Blackberry, iPod or iPad early enough to buy the appropriate stock on a consistent basis? If one can predict such things profitably is it likely that one would also know when to sell? For those who bought Microsoft in the early 1980s how did they know when to sell, if at all?

This line of thought reinforces my practice of indexing stock portfolios using ETFs. It also suggests that absent a better crystal ball than I own, diversification is a prudent policy.

Sincerely,

Jeff Sprowles, CFP®



Early Quarter Update

- S&P 500 – domestic large cap
 - 3/31 to 4/15 3.68%
 - Trailing 1 year 45.24%
- BarCap Intermediate Gov Bonds
 - 3/31 to 4/15 0.11%
 - Trailing 1 year 1.04%
- 90 Day U.S. Treasury Bills
 - 3/31 to 4/15 0.01%
 - Trailing 1 year 0.13%
- MSCI Emerging Markets
 - 3/31 to 4/15 3.68%
 - Trailing 1 year 56.66%
- Jeff's Current Stock Outlook:

75% of Target*

* "Target" refers to the percentage of a client's overall portfolio that should be in stocks. If a portfolio has a 60% target, at 75% our goal would be to have 45% in stocks at the moment.

WHAT IS CHEAP?

NOTHING —

At the moment none of the ETFs I use are screaming, "Buy Me, NOW."

The closest thing to this ideal is TAN — diversified solar alternate energy stocks. Its P/E is 23 which is high by stock standards but not for "story" sectors such as alternate energy. It is trading below its 200 day SMA but is on the uptick with a positive short term momentum. More important, I like this for the long term.



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Market comments

Valuation of the market is very much on my mind. The tools I use for market timing rely heavily on price/earnings ratio (P/E), real yield of the S&P 500 and real yield of 5 year treasuries.

This tool has indicated 75% target for stocks since the beginning of the year and my clients have underperformed as the domestic stock market has been rolling.

P/E based on trailing twelve months earnings is over 20. This is the tenth decile in my data base from 1959 to the present. I follow Professor Siegel's newsletter closely. Based on estimated 2011 earnings he thinks the market is selling at about 15 P/E and therefore thinks it attractive. That P/E doesn't make the market a bargain.

The ratio of real yield on the market and real yield on treasuries is also tenth decile. This indicates that some combination of higher stock prices, higher corporate earnings or higher interest rates is likely.

Real yield of the 5 year treasury is currently in the fifth decile. This historic perspective coupled with our ever burgeoning national debt puts me in the camp of believing that interest rates are much more likely to go up than down.

Finally, all of my timing tools are based on domestic data. My current stance is to be cautious on domestic stocks while evaluating international stocks.

The Bear & The Bull



The precise origin of the phrases "bull market" and "bear market" is obscure.

Early use includes a 1891 citing in *The Oxford English Dictionary* of the term "bull market" and *The Online Etymology Dictionary*, which relates the word "bull" to "inflate, swell", and dates its stock market connotation to 1714.

One etymology hypothesis points to London bearskin

"jobbers" (market makers), who would sell bearskins before the bears had actually been caught. This practice was in contradiction of the proverb *ne vendez pas la peau de l'ours avant de l'avoir tué* ("don't sell the bearskin before you've killed the bear")—an admonition quoted daily in our office. Jobbers, or short-sellers, would sell bearskins they did not own in anticipation of falling prices, which would enable them to buy them later for an additional profit. As the bear and bull were commonly pitted against one another in blood sport, the bull became known as the opposite of the bear. The bear represented a down-trend in the market and as its counterpart, the bull became the symbol for an up-trend.

Additional analogies and mnemonic devices in the contest for bragging rights include:

- In French, "bulle spéculative" refers to a speculative market bubble.
- Bull is short for 'bully', an archaic meaning of 'excellent' frequently associated with our president of 100 years ago.
- It refers to the way that the animals attack: a bull attacks upwards with its horns, while a bear swipes downwards with its paws.
- They were originally used in reference to two old merchant banking families, the Barings and the Bulstrodes.
- Bears hibernate, while bulls do not.
- The word "bull" plays off the market's returns being "full" whereas "bear" alludes to the market's returns being "bare".
- In describing financial market behavior, the largest group of market participants is often referred to as a herd. This is especially relevant to participants in bull markets since bulls are herding animals. A bull market is also sometimes described as a bull run.*

The New Bull Market Icon?

Before the market crash two years ago, an executive at Credit Suisse commissioned twelve artists to create works inspired by Wall Street terminology.** Sculptors Mark and Diane Weisbeck selected "bull market" as the basis for their work, "Bull Market Rocket," which is 13 feet tall and constructed of textured and dyed stainless steel.***

English majors well versed in the use of symbols in literature and perhaps more eager than most to take analogies to extremes might argue that selecting a rocket for a rising market is not a good idea. Everybody has seen film of rockets exploding on the pad or curling back to explode on the ground shortly after launch. Successful launches consume enormous amounts of fuel and then the rocket disappears from sight. The majority of rockets have been developed with military uses in mind. The last thing most investors want is to have their portfolios end in an explosion.

If a new symbol is needed, what do you think would be appropriate? Perhaps a bamboo grove? They grow relentlessly and can be useful. Perhaps the deer which flourishes in all 50 states, increases in number in most environments and is capable of seriously damaging automobiles irrespective of make, model and cost of the car? Perhaps a Jack Russell terrier which is full of energy?



*http://en.wikipedia.org/wiki/Market_trend#Etymology
**<http://nymag.com/news/intelligencer/58196/>
***http://www.artdaily.org/index.asp?int_sec=2&int_new=32491

www.sprowles.com

Go Digital

Send an e-mail to
JLEE@sprowles.com

Jeff Sprowles and Associates, LLC
Fee Only Financial
Planner and Investment Advisor



Phone: 215-310-9693
Fax: 215-693-6233
Cell: 215-630-2621
jsproles@sprowles.com

945 Langhorne-Yardley Road
Langhorne, PA 19047