FINANCIAL SERVICES ADVISORY
INCORPORATED

Rockville, MD 20850 800.235.4567 www.fsainvest.com

Decennial Pattern Suggests Trouble Ahead...Do We Care?

February Market Review From Your Portfolio Management Team—March 8, 2010

There is no shortage of ideas for attempting to discern the future direction of stock prices. Back in November we discussed the performance of stocks after recessionary periods (they tend to continue trending up in the second recovery year), while last month we discussed the so-called January barometer (a down month for stocks in January presaging a down year for stocks).

Is there any value in looking at a 10-year pattern for stocks—that is, are there any trends that occur during the years that end in 1, 2, or in this case 0? Going back to 1900 (using data from Yale Hirsch in the *Stock Trader's Almanac*), we find that years ending in zero have tended to be among the weakest years of the decade. Of the eleven years ending in zero from 1900 through 2000, only four of the years were positive (using the Dow Jones Industrial Average), while seven of the years were actually negative. The best return for any year ending in zero during that span was roughly 18%.

So, there is some seasonal evidence that suggests a more challenging year for stocks than we might otherwise expect, given the economic recovery that is underway.

While there are reasons to be optimistic that the economy is no longer teetering on the brink of collapse, there are enough worries (including the fear of rising interest rates and inflation, as well as conflicting economic reports that show an uneven recovery) to keep investors on edge. And that uneasiness is reflected in the current stock prices. The S&P 500 index has been in a trading range between 1030 – 1130 since late August. Clearly investors are having a hard time pushing the indexes aggressively higher, but at the same time, there seems to be little incentive to sell aggressively. From our vantage point, stocks remain in an uptrend, although it would only take a relatively modest decline to turn the trend in a negative direction.

Bond funds continue to behave quite well, with most of them at new high points for the year. Even the municipal bond funds that we have placed in many of our taxable accounts have rebounded this year from their corrections of last year. With concerns of potentially rising inflation and rising interest rates, many observers feel that investors should be exiting their bond holdings, and while we recognize that the threat is real, we believe investors are still attracted to the smoother performance from bonds. Of course, we have our safety nets in place to help guard against a severe weakening in bond prices.

Please let us know if there is anything we can add to these monthly reports that would help you better understand what is happening in your accounts.