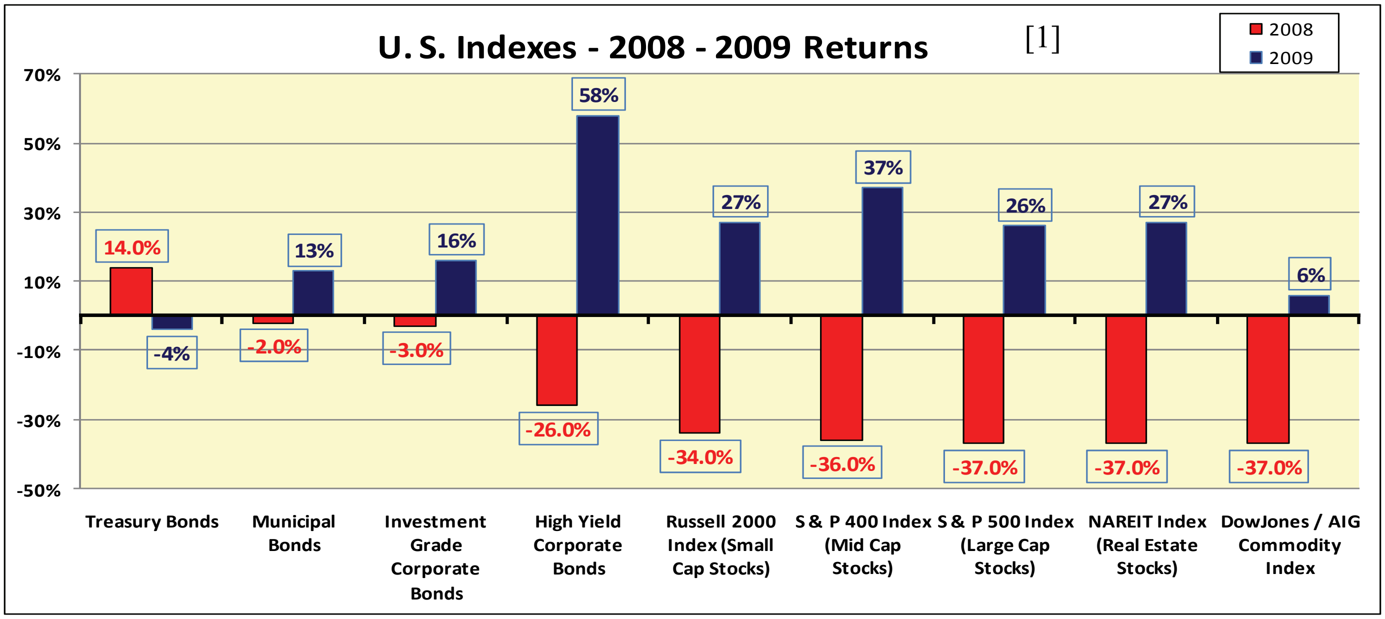
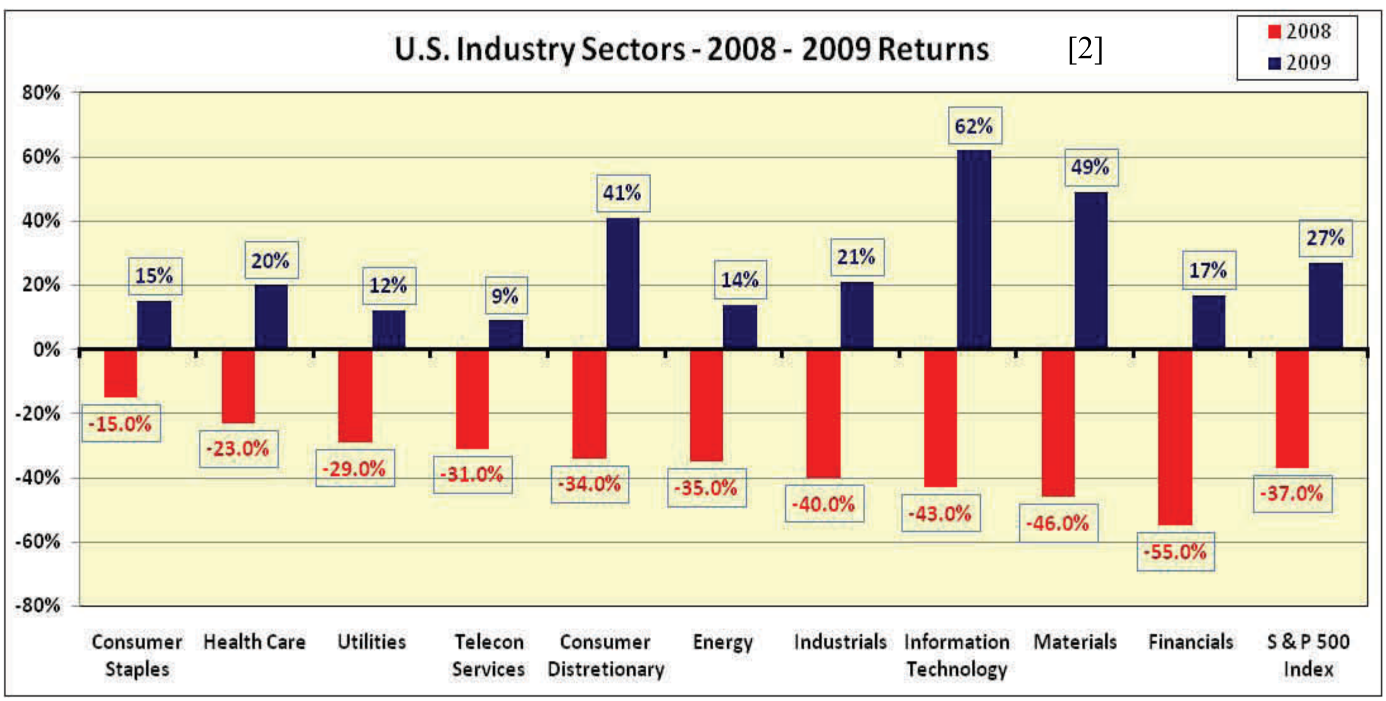
JVL Associates, LLC NEWSLETTER

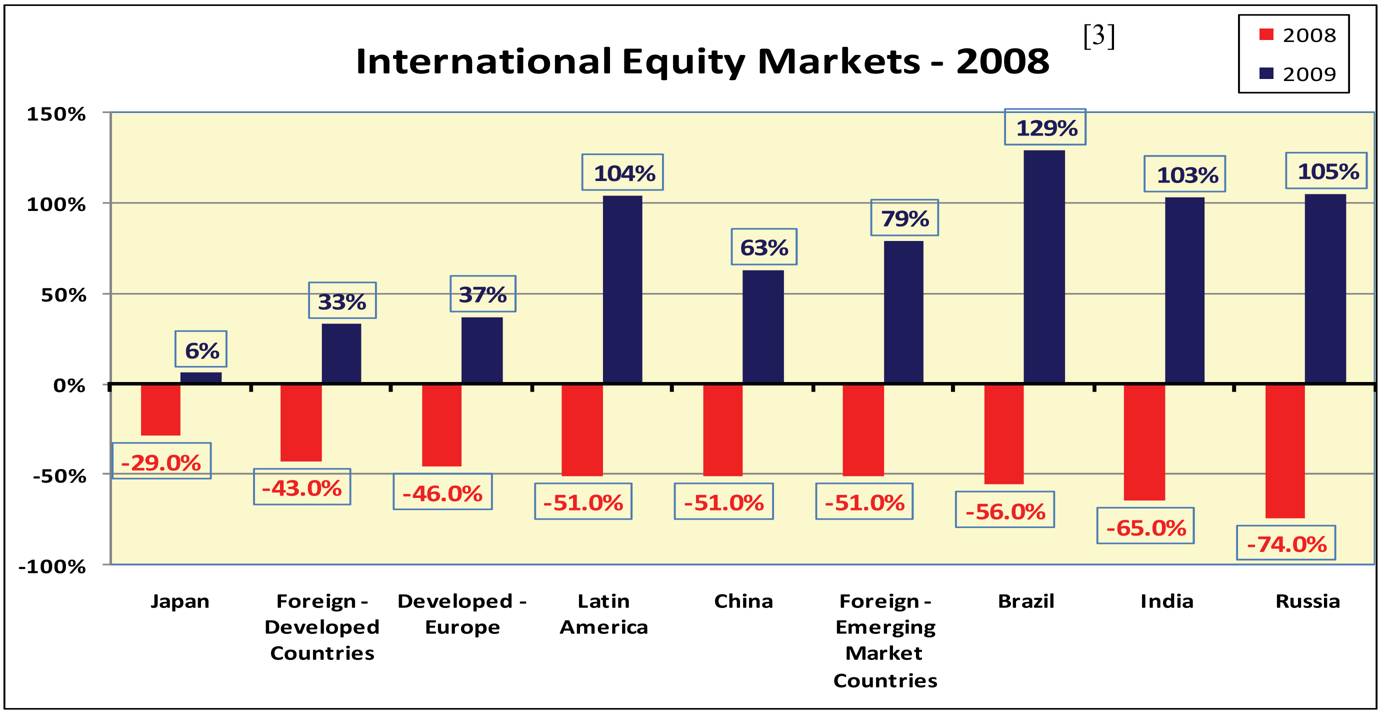
DECEMBER 2009

2009 was a welcomed turnaround from 2008. Let's take a look at the details:

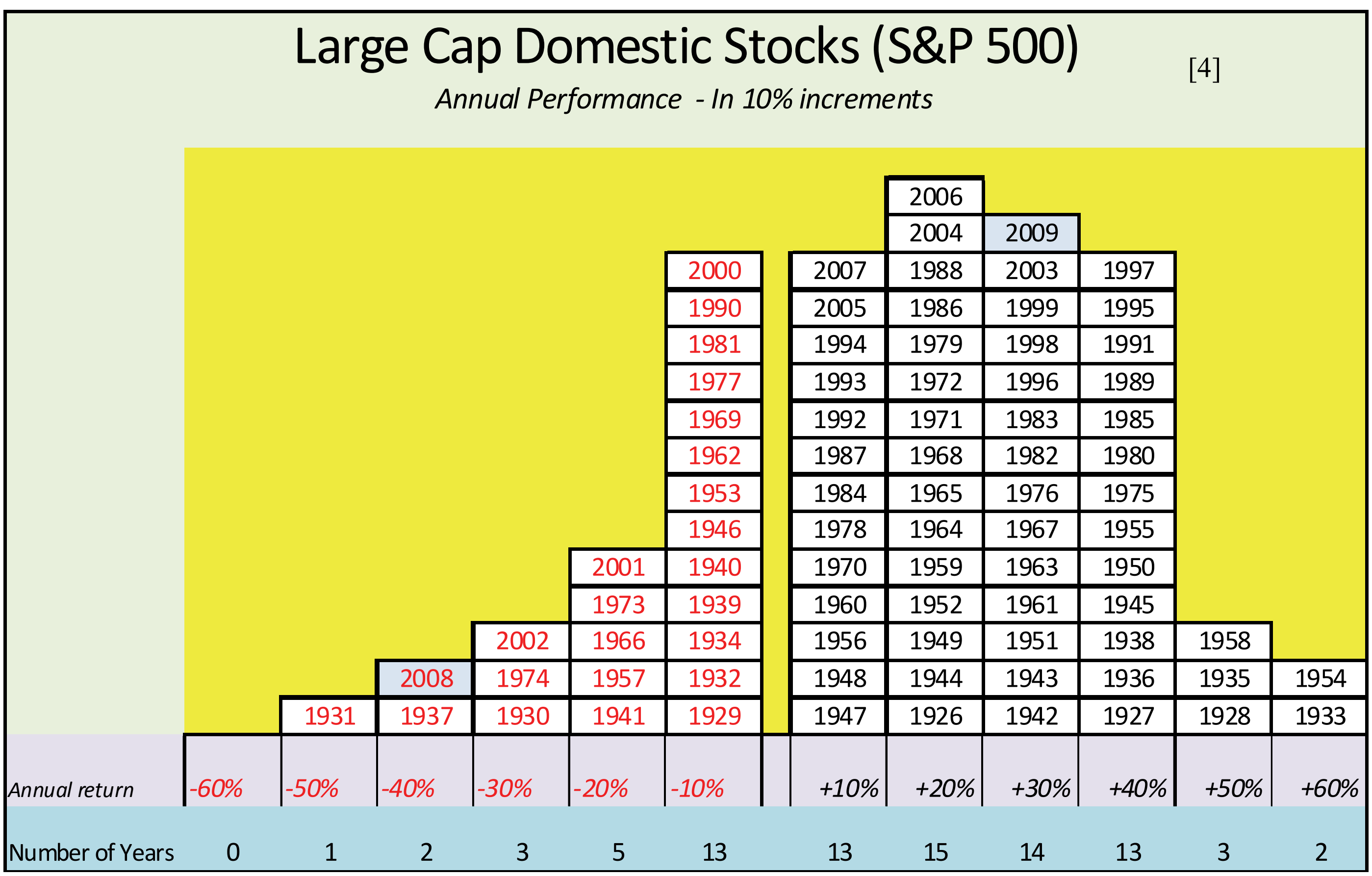
Looking at 2008 and 2009 returns of various asset classes both domestically and internationally, we see just how broad based the market turnaround was.



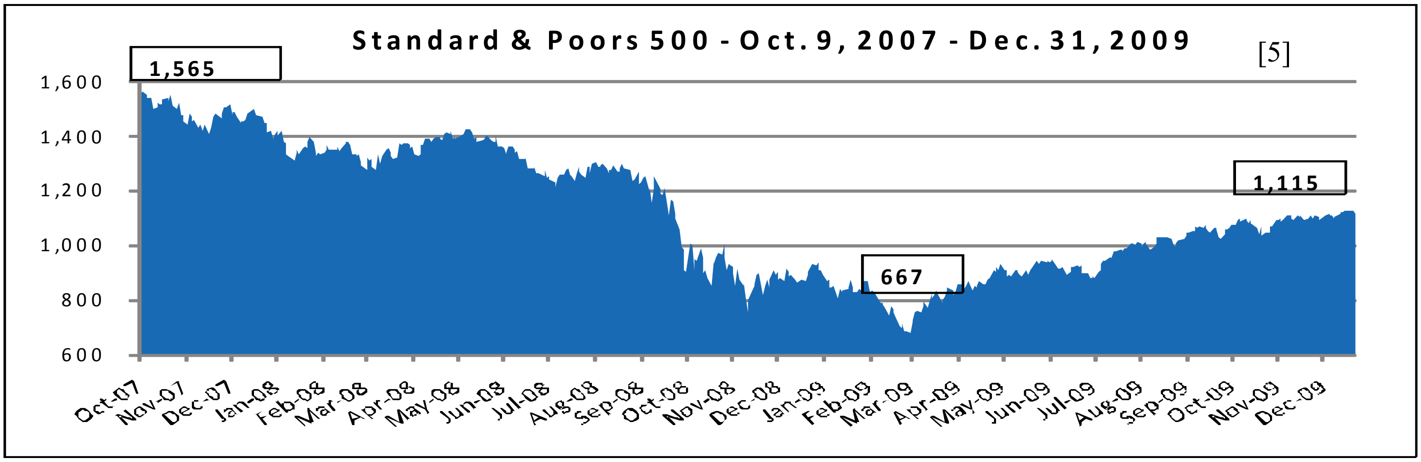




Putting 2009 into perspective with history we find that the year was more in line with "normal" as the following chart demonstrates:



The U.S. stock market (S&P 500) reached its all time high on October 9, 2007. Over the next 17 months, through March 9, 2009, the market experienced a 57% decline. That decline is the 3rd largest decline on record exceeded only by the 1929 – 1932 (34 months) and 1937 – 1942 (61 months) bear markets, both of which occurred over a much longer period of time. [5]

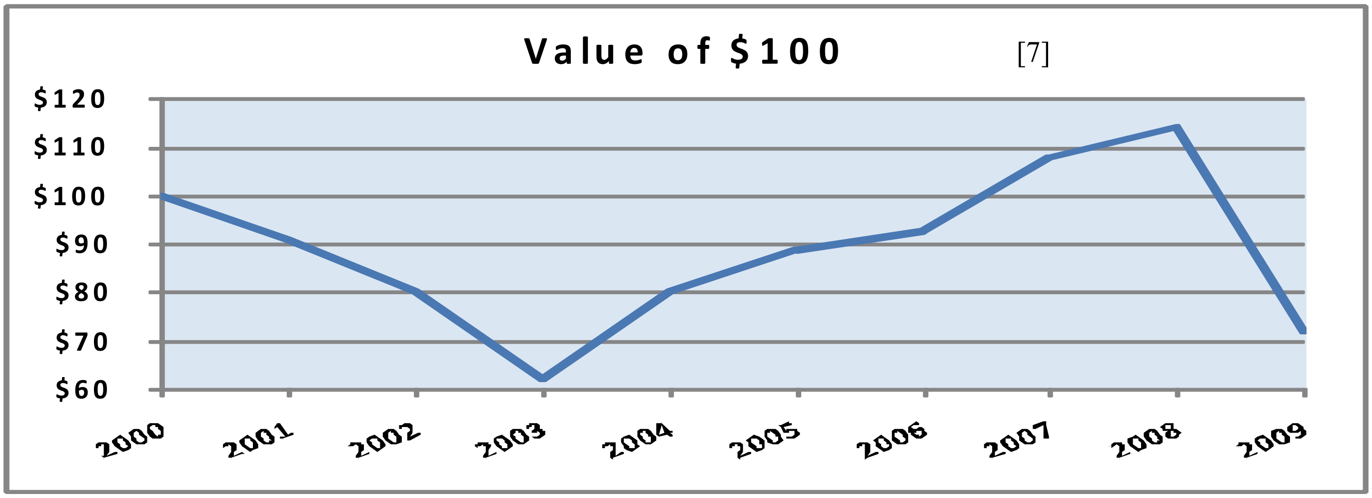


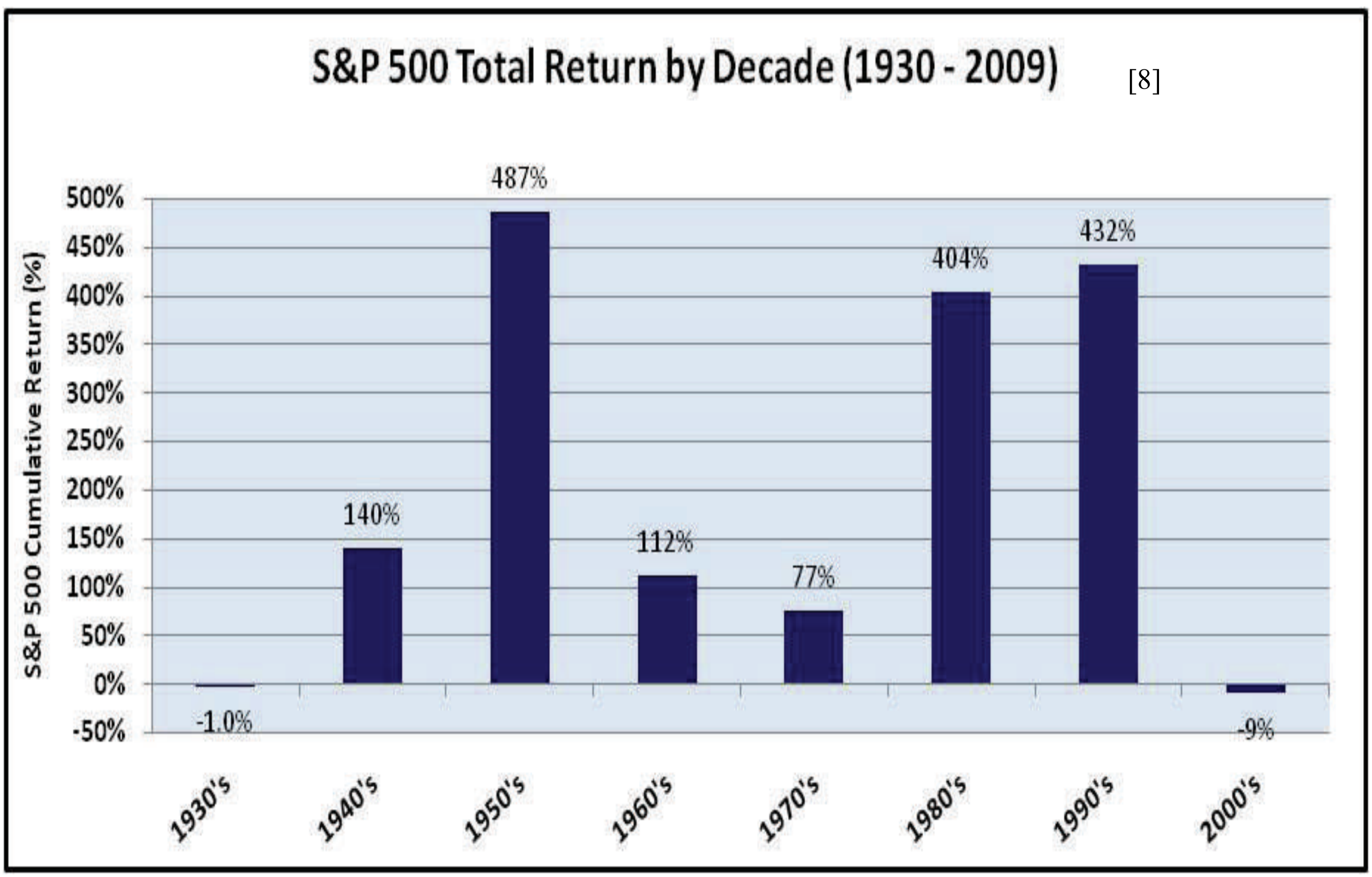
Historical U.S. Stock Bear Markets (1926 - 2009) [6]

Peak	Trough	Duration (Months)	Bear Market Magnitude	Recession During Bear?	1 Yr Return After Trough
9/3/1929	7/8/1932	34	-86%	Yes	124%
3/10/1937	4/28/1942	61	-60%	Yes	59%
10/9/2007	03/09/2009	17	-57%	Yes	65% **
3/24/2000	10/9/2002	31	-49%	Yes	34%
1/11/1973	10/3/1974	21	-48%	Yes	38%
11/29/1968	5/26/1970	18	-36%	Yes	44%
8/25/1987	12/4/1987	4	-34%	No	23%
5/29/1946	6/13/1949	37	-30%	Yes	42%
12/11/1961	6/26/1962	6	-28%	No	33%
11/28/1980	8/12/1982	21	-27%	Yes	58%
2/9/1966	10/7/1966	8	-22%	No	33%
8/2/1956	10/22/1957	14	-22%	Yes	31%
7/16/1990	10/11/1990	3	-20%	Yes	29%
Average (excluding 2007 - 09):		22	-39%	-	46%

** Current recovery through December 31, 2009

As we end 2009, we can also take a look at what is being called the "lost decade" for the U.S. stock market. For the ten year period beginning January 1, 2000 and ending December 31, 2009, the U.S. Stock Market , as represented by the S&P 500, lost 9%. This equates to investing $100 into the market on January 1, 2000, leaving it untouched for ten years, and ending up with $91 on December 31, 2009. Contrast that with the returns for the prior six decades and we see why the last ten years are being called the "lost decade".





What about 2010?

I have always stated and maintained that I am a planner not a predictor. While we position portfolios to withstand many market conditions, we also spend a great deal of time studying the various scenarios the markets may take. Let's take a look at a few:

During the last 50 years there have been twelve major U.S. stock market declines / advances. The average decline during those twelve periods was -40% followed by the market rebounding an average of 110%. [9] The current period has realized a market decline of -57% and then experienced a market rally of 65% through December 31, 2009. Given historical averages, the market has more room to run.

Both the revenue and operating earnings of the S&P 500 companies are increasing. This trend is expected to continue into 2010. Using Bloomberg's projected 2010 earnings estimate the forward looking PE ratio (price to earnings) of the S&P 500 is 14. This compares favorably to the 80 year average PE ratio of 17, [10] This would indicate the U.S. Stock Market is currently undervalued.

On the international front the data is similar. Foreign developed market stocks are currently valued at a forward looking PE ratio of 15 compared to a long term average PE ratio of 20. Foreign emerging market stocks are currently valued at a forward looking PE ratio of 10 compared to a long term average PE ratio of 16. [11] Both of these indicate that foreign stocks are also currently undervalued.

Ned Davis, president of his own institutional research firm says that a bullish signal for stocks exists when inflation is low. Data shows that stocks gain 18% when inflation is under 1% and 8% when inflation is between 1% and 4%. [12] Given the current extended period of low inflation , history suggests the market can continue to grow.

Where does that leave us?

The last nine months have been very good for stock investors. As with any "good thing" people tend to wonder how long it will last? While no one knows for sure, we can see signs that give us cautious optimism. The world economies have many problems, but there are many good things going on as well.

A sound financial plan includes a sound investment philosophy. Knowing what your taste for risk is (and we know how much risk can cost after 2008!), combined with the proper asset allocation model can position a portfolio to withstand and endure any market scenario.

At JVL Associates, LLC, we take great pride in our financial planning and investment process. Our success is because of great clients who have entrusted their finances to us and allow us to assist them in achieving their goals and objectives. We are humbled by that opportunity and value the trust they place in us.

May you experience a great 2010!

By: Jerry VanderLugt CPA CFP®

References

[1] Information obtained from the following sources:
Fidelity Investments, Market Analysis, Research & Education - 2009 Market Update - page 7
Pacific Investment Management Company, LLC - Benchmark Returns December 31, 2009
Fidelity Investments, Market Analysis, Research & Education - 2008 Market Update - page 6
Morningstar Pricipia Pro, December 31, 2008
Wall Street Journal, January 2, 2009

[2] Information obtained from the following sources:
Fidelity Investments, Market Analysis, Research & Education - 2009 Market Update - page 28
Fidelity Investments, Market Analysis, Research & Education - 2008 Market Update - page 26

[3] Information obtained from the following sources:
Fidelity Investments, Market Analysis, Research & Education - 2009 Market Update - pages 35 & 36
Fidelity Investments, Market Analysis, Research & Education - 2008 Market Update - pages 32 and 33

[4] Information obtained from the following sources:
Pacific Investment Management Company, LLC - Benchmark Returns December 31, 2009
Ibbotson SBBI 2008 Classic Yearbook - pages 294 -299
Morningstar Pricipia Pro, December 31, 2008

[5] http://finance.yahoo.com - S&P 500 Historical Returns

[6] Fidelity Investments, Market Analysis, Research & Education - 2008 Market Update - page 30 (updated by JVL Associates, LLC for 4th Qtr results)

[7] Information obtained from the following sources:
Pacific Investment Management Company, LLC - Benchmark Returns December 31, 2009
Ibbotson SBBI 2008 Classic Yearbook - pages 294 -299
Morningstar Pricipia Pro, December 31, 2008

[8] Fidelity Investments, Market Analysis, Research & Education - 2009 Market Update - page 48

[9] Fidelity Investments, Investment Themes for 2010 - page 9

[10] Fidelity Investments, Market Analysis, Research & Education - 2009 Market Update - page 32

[11] Fidelity Investments, Market Analysis, Research & Education - 2009 Market Update - page 38

[12] Advisor Perpectives: *Ned Davis - "The Cyclical Bull Rally is not over", by Robert Huebscher,* November 17, 2009