UMB Asset Management
Economic and Market Outlook

Bull Market?

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Market Update

DOW INDUSTRIALS:
8,469.11**,** -3.50% YTD

S&P 500:
908.35, 1.57 YTD

GOLD:
$923.90, 4.25% YTD

US TREAS, 10 YR:
3.17%, .96 bps YTD

UMB 2009 Economic Outlook

GDP GROWTH:
-2% to -2.5%

UNEMPLOYMENT:
9% to 11%

INFLATION:
-.5% to 1.0%

FED FUNDS RATE:
0.25% to 1.00%

As of this writing, the U.S. stock market has regained most of the ground it lost during the first two and a half months of this year. Many market pundits are calling this a "new Bull market." This commentary will explore whether or not their view is correct, and if so, what does history tell us of the normal trading patterns of Bull markets which are created by an economic contraction-driven Bear market?

What exactly constitutes a "Bear" or "Bull" market? There is wide-spread agreement that the definition of a Bear market is when certain market indexes decline by at least 20% in price from high levels. Conversely, the recognized definition of a Bull market is when those market indexes increase by at least 20% in value from low levels. These definitions have the blessing of the "Dow Theory" crowd.

With that in mind, we have seen both Bull and Bear markets within the last 18 months! This is highly unusual. From the peak stock prices of late 2007 until March 2009, the market fell by more than 55% in value. Since March 6th of this year, the stock market has increased by more than 30% in value. We certainly live in interesting times.

Anatomy of a Bear

The Bear market, which ended in March of this year, was extraordinary in both scope and ferocity. This was not a friendly Bear of the "Smokey" or "Yogi" variety; this was a huge, strong, snarling, vicious Bear. From peak to trough, stock prices declined 53.8% in value, representing the most vicious bear market since the Great Depression. According to Crandall, Pierce and Co., the average Bear market tends to decline 33.3% from peak to trough. This Bear was slightly shorter than normal, lasting 1.4 years, compared to an average of 1.7 years. The longest bear market on record was 4.3 years in length and the shortest lasted just 1.8 months. So, what does history tell us about how markets react following this type of debacle?

Anatomy of a New Bull

The following information is based on data collected from the end of World War II to today, and illustrates how stock prices have reacted in the initial stages of bull markets.

Time Following Current End of Bear Market	Strongest Bull Market	Average Bull Market	Weakest Bull Market	Bull Market
1st Week	+10.2%	12.4%	+6.2%	+0.6%
1st Month	+23.5%	+23.5%	+10.9%	+2.3%
3 Months	N/A	+33.9%	+17.5%	+5.8%
6 Months	N/A	+45.4%	+24.6%	+12.5%
1st Year	N/A	+52.3%	+33.4%	+9.0%
2nd Year	N/A	+66.5%	+47.5%	+15.1%
3rd Year	N/A	+69.2%	+50.2%	+31.3%

As can be seen from the above data, this Bull has been very active. As a matter of fact, this has been the strongest bull market on record, at least during the first month of its existence. If this trend continues, it leads one to believe that more upside may be coming our way; albeit perhaps over the next one to three years, rather than the next few months. Currently, the market is up 33% from its lows, which matches the best first three months of any new bull market on record (since the end of World War II). If history is a guide, this Bull may need a "breather" before making another significant move to the upside from current valuation levels.

Another factor which may be gleaned from the above information is that, from a price standpoint, the market probably has significantly more upside left prior to the end of this upward shift in stock prices. Based on historical data, if this is an average Bull market, stock prices still have another 17% left to go on the upside. If current trends continue, then we could have another 36% left on the upside in prices over the next couple of years.

It is impossible to predict what kind of Bull market we have on our hands, but our guess is that it might not continue to be the "strongest" bull market on record. In our opinion, in order to generate +60% gains from trough price levels, corporate profits would need to recover, inflation would need to be contained, and interest rates would have to remain at low levels. We doubt that all of these fundamentals will play out over the next three years. We harbor concerns about the future trend of inflationary pressures and expect both inflation and interest rates to eventually rise as corporate profits accelerate.

That said, based on historical data, it appears that this Bull market may still have room to run.

Back to Even?

If stock prices declined by 55% from the highs, and we have seen a 33% upward move over the last two months, then the investor is only down 22% in value, right? Wrong! A simple mathematical example will help to explain. Below is an example of an individual who invested $10,000 into the stock market in November of 2007.

Beginning Value:	$10,000
Loss due to Bear Market (-55%):	$ 5,500
Value in March 2009:	$ 4,500
Gain due to Bull Market (+33%):	$ 1,500
Current Value (May 2009):	$ 6,000

As can be seen from the simple example above, the investor who purchased stocks at the peak of the market in November of 2007 is still down $4,000 in value, or 40% of the initial investment. This is an example of the importance of risk management. Diversification and focusing on quality investments

should, over time, help mitigate some of the losses experienced during stock market contractions. Investing in the stock market (or any equity-oriented instrument) involves volatility. This piece highlights just how important it is to outperform the markets as the markets decline.

Current View

The economy continues to show signs that the worst may indeed be behind us. While we wouldn't say it is 'healthy' yet, we now regularly see evidence that the rate of economic deterioration is slowing. This is why the stock market has moved upwards over the last couple of months – our nation's investors are anticipating an end to the recession.

We believe the market will show positive returns for the entire year. However, we also believe actual signs of economic growth may be needed before we have another significant leg of price appreciation in U.S. stocks. That is probably still a ways off at this time.

Other factors to consider regarding equity prices include:

- Current valuation (neither extremely cheap nor overvalued).
- Earnings flow is poor – but we expect improvement staring in the 3rd quarter of this year.
- The government has a very heavy hand in financial markets/affairs. How long this will last, and what impact it will have remain significant long-term concerns.

With the market moving to the upside so quickly over the last eight weeks, we are not in a hurry to put cash to work – but continue to watch for opportunities. Our current focus is on companies that have the financial wherewithal to maintain and grow dividend flow. We are also looking specifically at potential longer-term beneficiaries of the rising "investment" themes on the horizon.

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