



## Market Commentary

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	Market Returns				Market Returns		
	September 2009	3rd Quarter 2009	Year to Date		September 2009	3rd Quarter 2009	Year to Date
DJIA	2.3%	15.0%	10.7%	MSCI EAFE	3.6%	18.8%	25.5%
S&P 500	3.6%	15.0%	17.0%	MSCI Emerg Markets	8.9%	20.1%	61.2%

**September** Early this year, the consensus was that our dramatic monetary and fiscal policy actions would favor U.S. markets over other developed nations. Surprisingly, domestic markets (+17% YTD) have seriously underperformed foreign markets (+25% YTD), which demonstrates, yet again, why asset allocation among many different investments enhances portfolio performance. Investors without foreign equity exposure so far this year, particularly emerging markets (+61% YTD), would have missed significant upside.

**Robust Recovery** The financial press is ubiquitous, filling the airways 24/7 offering market insights from around the world, most of which have nothing to do with helping investors make money. It's like an editorial smorgasbord, where viewers can find precisely the opinion that bolters their thesis, bullish, bearish, or indifferent. An exception to this stream of drivel may be James Grant, publisher of *The Interest Rate Observer*. Best described as a market iconoclast, he is anything but a stock market cheerleader. His recent book, "Mr. Market Miscalculates," blames unfettered financial innovation and the overly accommodative Greenspan-era Fed for our recent economic problems, making his September 19, 2009 article in *The Wall Street Journal*, "From Bear to Bull," most noteworthy.

*"As if they really knew, leading economists predict that recovery from our Great Recession will be plodding, gray and jobless. But they don't know, and can't. The future is unfathomable. Not famously a glass half-full kind of fellow, I am about to propose that the recovery will be a bit of a barn burner. Not that I can really know, either, the future being what it is. However, though I can't predict, I can guess. No, not 'guess.' Let us call it inference."*

He goes on to quote English economist Arthur C. Pigou, who exactly frames the issue:

*"The error of optimism dies in the crisis, but in dying it gives birth to an error of pessimism. This new error is born not an infant, but a giant."*

And, we might add, therein lays the opportunity. Please call us if you care to read entire article.

**Recovery Counterpoint** PIMCO's preeminent bond manager, Bill Gross, is less sanguine about domestic economic growth. His opinion both reflects and has probably helped form the consensus view. He refers to the present and future as the New Normal, "which is a period of time in which economies grow very slowly as opposed to growing like weeds...in which profits are static; in which the government plays a significant role in terms of deficits and reregulation and control of the economy..." Let us point out he believes the increased role of government is not a function of which political party is in power. In short, PIMCO expects a future not unlike the 1970's, featuring corporate and personal deleveraging, deglobalization and reregulation. While we prefer James Grant's forecast (yes, we too gravitate toward the pundits who echo our sentiments), we will happily settle for something in the between, but will be here for our clients whatever happens.

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