



RETIREMENT FINANCIAL SERVICES, INC.
WEALTH MANAGEMENT AND RETIREMENT SOLUTIONS EXPERTS

Weekly Commentary
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The Markets

Thanks a trillion, Secretary Geithner.

After weeks of heightened anticipation, Treasury Secretary Tim Geithner unveiled the administration's comprehensive plan to restore confidence in the financial markets. Unfortunately, it landed with a big ol' thud. Many analysts felt the plan lacked details and investors responded by dumping stocks.

The market's reaction to Geithner's plan highlights an important point about today's financial markets. The markets, to some extent, seem to be trading based on pronouncements from Washington, as opposed to expected earnings. Now, one could argue that the actions by Washington *will* affect earnings and there's some truth to that. But, for the long-term health of the markets, it's important that they trade based on business results, not government intervention.

While most people expect the economy to get worse before it gets better, optimists are hoping that the recently approved stimulus package will prevent the economy from turning *dramatically* worse. Along with the stimulus jolt, we need to remember that, "time and price are the only arbiters of our financial fate," according to Todd Harrison of Minyanville.com.

It will take time to work out our economic imbalances and it will take low prices to entice buyers back into the marketplace. Those items, coupled with the stimulus package, are what many investors are banking on to turn this economy around. Between now and then, we need to be prepared for a little more darkness before the dawn.

Returns through 2/13/09	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrial Average	-5.2	-10.6	-36.4	-10.3	-5.9	-1.7
NASDAQ Composite	-3.6	-2.7	-33.9	-11.8	-5.7	-4.0
Standard & Poor's 500	-4.8	-8.5	-38.8	-13.3	-6.3	-4.0

Sources: Yahoo! Finance, Barron's. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. Three-, Five-, and 10-year returns are annualized. Assumes dividends are not reinvested.

DOES THE STOCK MARKET start recovering well before a recession ends? There's a common perception that the stock market starts advancing about five to six months before a recession officially ends. If true, then we need to understand that it's possible for the stock market to advance even if the economy is continuing to deteriorate.

According to data from Bloomberg, “The S&P 500 began recovering on average five months before recessions ended in 1975, 1982, and 1991.” Money manager John Hussman has a little different conclusion to this question. In his analysis, he reviewed stock market performance in the two years before and the two years after every recession since World War II. Instead of discovering the “five to six month” figure, he reached the following conclusions:

1. “Major gains reliably begin only about three months prior to the end of a recession and continue into the recovery.”
2. “Regardless of how stocks perform during a recession, the market is nearly always advancing strongly by the time that the recession has three months to go.”

Based on Hussman’s analysis, all we have to do is determine when this recession will end, then backup three months and start investing heavily. That’s the golden ticket. As true as that may be, its practicality is rather limited since none of us know when this recession will end. Darn!

The Hussman and Bloomberg reports do add support to the idea that the stock market is a “forward projecting” mechanism. Stock prices tend to move based on projected earnings so it’s very possible to see prices move up even if current earnings are poor. In today’s environment, one of the biggest hurdles investors face is projecting the near-term earnings picture. On Wall Street, they call it “earnings visibility” and right now, it’s quite foggy.

Eventually, we expect the fog to clear and, as always, we will continue to monitor what’s happening and make portfolio adjustments that we believe are in our clients’ best interests.

Weekly Focus – A Scientific Post-Valentine’s Day Thought

Throughout the ages, poets and romanticists have portrayed love as coming from the heart, not the head. Well, neuroscientists beg to differ. Using a functional magnetic resonance imaging machine, scientists have put love to the test and concluded that, “Love mostly can be understood through brain images, hormones, and genetics,” according to Associated Press writer Seth Borenstein. Some scientists have concluded there are four tiny areas of the brain that form a “love circuit” and that “romantic love is an addiction.”

How unromantic!

One of the researchers, Larry Young, Ph.D., said that romantic love theoretically can be simulated with chemicals, but “if you really want, you know, to get the relationship spark back, then engage in the behavior that stimulates the release of these molecules and allow them to stimulate the emotions.” We’ll let you figure out what those behaviors are.

Best regards,

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