



Signs of the Times: When Less Can Result in More

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Well, it appears that the markets are testing new lows again, though we should not be surprised by this. Most experts agree we often see new lows at the onset of an economic recovery period. Today's recent downturn appears to be linked to uncertainties relative to the banking bail outs, corporate layoffs, reduced corporate earning estimates and the continuation of home foreclosure issues.

While there's still the outstanding question of when we'll actually hit the bottom and when the bull market recovery will begin, we remain steadfast in our conviction that today, quality investments are discounted and represent an outstanding value not only in stocks but also in corporate and municipal bonds. In fact, investment grade companies have sold over \$132.8 billion in bonds in 2009 so far. This represents a more than 22.6% jump over the same period last year and a significantly higher percentage over the dismal levels during fall 2008. Experts consider such an increase to be a sign of a warming trend in the credit markets, which ultimately can translate to the beginning of economic recovery.¹

A quick glance at the following bond market indexes seems to reinforce expert opinions:

BarCap Municipal TR USD	YTD as of 2/19/2009	+4.80%
ML US High Yield Master II TR	YTD as of 2/19/2009	+4.72%
US Treas T-Bill Cnst Mat Rate 10	YTD as of 1/31/2009	-5.13%

As you can see above, as of the date of this writing, February 23, 2009, financial markets are starting to see money flow out of treasuries and into corporate and municipal bonds. Some market observers believe this outflow to be another trend indicating a forthcoming rebound in the economy as well as the investment arena.

In addition to market performance, another gauge of economic recovery is business/corporate productivity during a recession. During past recessions

productivity typically fell as businesses were slow to adjust hiring and production. Slow response time caused inventories to surge which subsequently required a steep liquidation of stockpiles which made the downtown worse.

Today, faster response time by companies puts businesses in a good position to respond quickly to increased demand when it comes. Dramatic efforts to control labor costs, while painful now, will limit corporate losses going forward and lessen the squeeze on profit margins thus directly impacting corporate profits. Corporate profits are directly rooted to financial and economic recovery.²

While we recognize we are certainly not out of the woods with regard to our current recession, there are trends beginning to emerge which might indicate a light at the end of the tunnel. As always, should you have questions or concerns, we welcome your calls.

*Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. An investor cannot invest directly in an index. Index returns do not reflect the deduction of fees, trading costs or other expenses. **The Barclays Capital Aggregate Index** measures changes in the fixed-rate debt issues rated investment grade or higher by Moody's Investors Service, Standard & Poor's or Fitch Investor's Service in that order. The Aggregate Index is comprised of the Government/Corporate, the Mortgage-Backed Securities and the Asset-Backed securities indices. **The Merrill Lynch High Yield Master II Index** is a commonly used benchmark index for high yield corporate bonds. It is administered by Merrill Lynch. The Master II is a measure of the broad high yield market. **The US Treasury T-Bill Constant Maturity Rate 10** are the weekly or monthly average yields on U.S. Treasury securities adjusted to constant maturities.*

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¹ "Bonds Inch Back", *Business Week*, February 23, 2009

² "The Mixed Blessing of Soaring Productivity", *Business Week*, February 23, 2009