

October 12, 2009

Dear Friend,

THE ECONOMY - Is there light at the end of the tunnel?

Though this seems a very appropriate question for our current time, this was a question that graced the cover of Time magazine in September of 1992. On the inside was the quote that we included as an insert in this mailing.

Though we talk of history often, it can be interesting to revisit difficult economic times past. After all, we are now over a year from one of the most financially difficult times most of us have ever seen. We saw the Lehman Brothers collapse, the decline of FNMA, FDMC as well as AIG, and we witnessed the flood of government injected liquidity into the economy; and yet this period too is beginning to fade into history.

Now that we are a year removed we are continuing to hear and read about the ongoing "economic crisis". To make matters seem worse we continue to see bad news in the media and a recent report of a 9.8% unemployment rate. A recent Time cover in September of 2009 read "Out of Work in America".

Is this abnormal?

Recessions are obviously not new. Of the most recent and memorable were the recessions of 1973/74, 1981/82, 1990/91, 2001, and, of course, our most current one of 2007-09. Using data from the National Bureau of Economic Research we can find some interesting observations from these recessions. First of which is that *all* of them ended. This in itself is markedly good news! Secondly, unemployment rates did not peak until well after the recessions ended. Despite the news of job losses and sky high rates of unemployment, in the prior four recessions unemployment did not reach its peak until nearly **two years** after the recession began. Though the current recession that began in December of 2007 is coming up on its two year anniversary, the fact that unemployment continues to rise shouldn't be surprising.

Stock markets tend to be leading indicators and in each case began to rebound prior to the recession's end. What's more interesting is that while Time's cover in 1992 describes a very dire economic scene, the Standard and Poor's 500 Index of stocks had actually hit market bottom two years **before** the publishing of this issue and was well on to the next bull market.

So while we continue to hear news about the current "economic crisis", let's continue to remember that the media's role is not always about informing, but about ratings. In other words, bad news sells. As of September 30<sup>th</sup> 2009 the same Standard and Poor's 500 Index is up dramatically from its March 9<sup>th</sup> bottom, strongly establishing the next upward trend.

As always, we invite you to contact us with any financial question or concern.

Arcadia Investment Advisors, LLC