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## Absurdity is Making the Rounds Again

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### Summary

- In our opinion, the equity markets will not retest their March 2009 lows (or even the July lows of ~870) unless another credit crisis emerges...Dubai is not a credit crisis...and we see very few signs that the underlying factors that began the last credit crisis are reoccurring....in fact, the opposite is emerging in many cases.....
- Strategists who believe that the equity markets will retest their March 2009 lows are failing to account for the fundamental and tactical strengthening of the credit markets.
- Markets learn through experience. The equity market recovery rally indicates that corporate and consumer default probabilities and experience would have to reach materially worse levels and expectations – even as the US Government reinstated its most successful stabilization programs - to push equity values below their March 2009 levels. NOT HAPPENING!
- In our opinion, a terrorist attack, a non-nuclear war with Iran, or a Dubai default – or all three at once - would not cause the S&P 500 to retest the March 2009 lows. In our opinion, only blatantly stupid economic policy by the US or China has the potential to send the S&P 500 to its March 2009 lows....and building an investment approach based on stupidity....sounds stupid at this point.

The year is not over; however, December tends to be the month in which investors and analysts systematically take the time to review “what they expected would happen over the past 11 months”, “what did actually happen”, and “what is going to happen” in the next year. This annual process – which was absent in many cases last year due to the daily demands of the market- is designed to allow market participants to review their long term market and business expectations absent the distractions of intraday trading emergencies. In our opinion, the hysteria surrounding “bank nationalization,” long term “secular” bear market predictions, and the onset of the “Great Depression II” were manifestations of short term trading volatility, fear, and negative market returns rather than reasoned arguments for longer-term asset allocation decisions that are normally addressed at year end “strategy” session. Market participants who abandoned asset classes and businesses during periods of market dislocation often lock in losses that would have reversed with perseverance. How many financial companies abandoned their high yield or structuring businesses at the beginning of this year??? We know more than a few....

The absence of emergency fires to put out over the past couple of weeks makes it more likely that “strategy” meetings are taking place. In our opinion, the conclusion of these year-end strategy meetings makes it more likely that investors will begin to implementing their 2010 trading strategies and larger allocation shifts in December on any pullback...preparing for....rather than waiting for the January effect.

## **RETESTING THE LOWS IS REGAINING ITS VOICE**

Recent strategy and economic reports stating that there is a high probability that the S&P500 Index will retest their March 2009 lows has caused us to laugh out loud at times...especially when reviewing the logic many of our competitors are referencing. First of all, we continue to believe that some traditional equity and technical market strategists fail to understand the fundamental and tactical strengthening of the credit markets over the past 9 months relative to the level of distress the credit markets were under at this point last year. In our opinion, the US Government’s efforts to stabilize the CP / ABCP markets as well as initiating new FDIC guarantee programs (as well as others) saved numerous industrial companies as well as the entire banking industry. For example, at the height of the credit crisis...

**To receive the remainder of the report including our investment conclusions, please call Brian McClive at 480.563.2054 or email Brian at [bmcclive@mshowells.com](mailto:bmcclive@mshowells.com)**

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