

Financial Focus

Watch for Positive Changes in Investment Climate

If you look at the performance of the stock market in recent weeks, you'll see some good days and even good weeks—followed by not-so-good days and rough weeks. But if you look beyond these volatile numbers, you might see a story that offers some encouragement for investors in the not-too-distant future.

Specifically, you'll want to pay attention to these factors:

- Efforts by the U.S. Treasury Department to stabilize financial system—Just a few months ago, the government did not intercede to prevent the failure of Lehman Brothers and other financial services giants. In recent weeks, though, we've seen the Treasury provide massive support to Citigroup and other major banks. These efforts should contribute to increased stability in our financial system.
- Actions by the Federal Reserve to increase flow of credit—The Federal Reserve has acted aggressively to free up the flow of credit to consumers and businesses. As a result of the Fed's moves, interbank lending costs have dropped dramatically and we've seen an increase in the issuance of commercial paper, which are unsecured obligations issued by corporations or banks to finance their short-term credit needs. And, as the Fed has dropped short-term interest rates to zero, mortgage rates have begun dropping. If 30-year mortgage rates fall to the low four-percent range, many more consumers should begin to refinance existing homes and even purchase new ones...thus bringing demand back to the housing market.
- Economic stimulus package from Obama administration—President Obama and the new Congress are poised to enact a stimulus package including spending on infrastructure, aid to individual states, a middle-class tax cut, aid to homeowners, and other elements. This type of stimulus could have large, positive and immediate impact on the economy.
- Possible last stages of recession—Clearly, we're in the midst of harsh recession. But we might be closer to the end than to the beginning. And in fact, a majority of the economists polled in the well-respected Blue Chip Economic Indicators poll said they expected the recession to end in the second half of 2009. Of course, even the official end of the recession wouldn't necessarily indicate a robust economy, but it would almost certainly improve the investment environment.
- Attractive stock and bond prices—A long bear market tends to drag down the prices of most stocks, even those issued by strong companies whose prospects are good. Consequently, you can now find many good stocks selling for reasonable prices. When the market recovers, these quality stocks are often the first to show

impressive gains. And stocks aren't the only good investment opportunity available, either. In recent weeks, bond "spreads" (the difference in yields between Treasury bonds and those bonds issued by other agencies, such as municipalities or corporations) have been wider than we've seen in many decades. Because bond prices move in the opposite directions to their yields, the high yields offered by municipalities and companies likely mean that these types of bonds are now priced relatively low.

So the next time you find yourself shaking your head over the stock market's gyrations, try to focus on building an investment strategy for the future—which may be brighter than you thought.