Courier Capital Corporation

Market Review & Update

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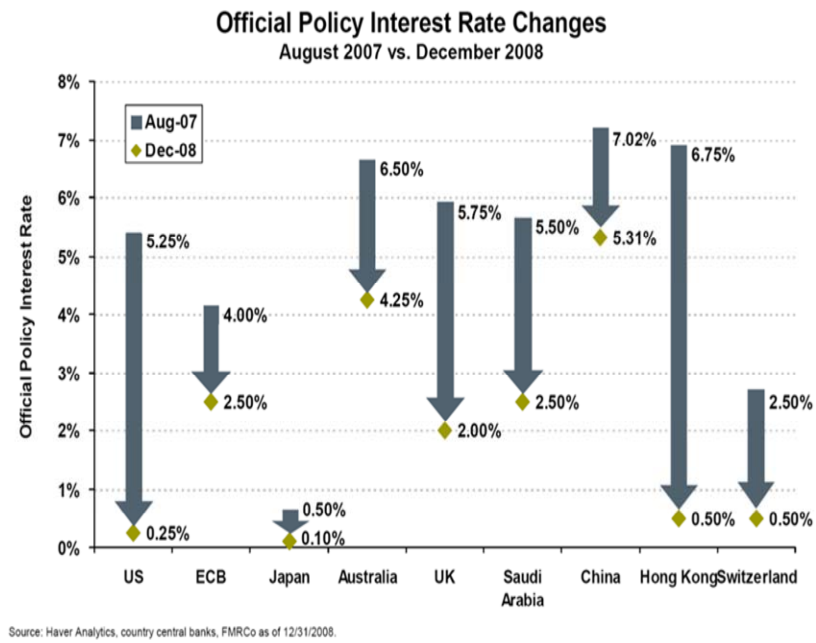
The world population continues to grow and as it does, the new entrants produce and consume, the fundamental basis for measured economic activity. Additionally, the world finds itself in an especially unique multi-decade cycle where a majority of the world's population evolves from subsistence economies to the global production/consumption trading norm. This has begun a catalytic environment for global trade and broad economic growth. Every economic cycle is interrupted by events that cause steps backward, as we are now experiencing. All cycles also resume their growth trajectories, as economies tend to be self correcting entities, although productive intervention can serve as an accelerant. Let's examine where we are, the forces in place, and comparable historic periods to shed some light on the direction we are most likely to head.

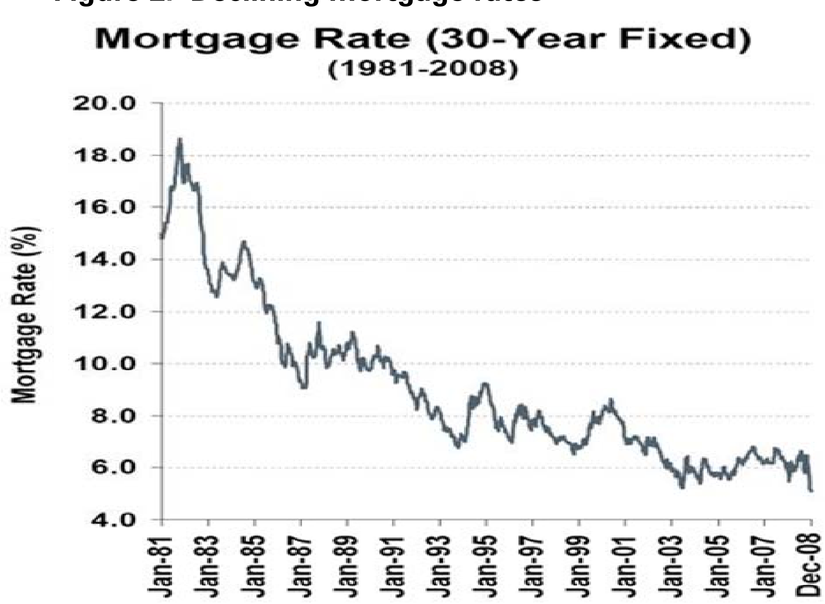
Figure 1. Global interest rates down dramatically



In historically comparable periods, national economies were often left to fend for themselves, or, reacted improperly to become more insular at times when global assistance would have been far more productive. If there is a particularly unique facet to the events we are now experiencing, it is the massive global coordination to ensure that the interdependent trading partners restore balance to the system, thereby restoring growth. Interest rate reductions have been massive and worldwide (Figure 1) and stimulus packages have been initiated by all major trading partners who have said in one voice that they will continue until they succeed.

Has this begun to work? We have witnessed some improvement in functional greed returning to the housing market, as lower asset prices coupled with 50 year lows in mortgage rates have rekindled activity, (Figure 2) causing the greatest number of monthly transactions since 2002.

Figure 2. Declining mortgage rates



Federal Home Loan Mortgage Corporation (FHLMC) 30-year Fixed-Rate Mortgage. Source: Haver Analytics, FHLMC, FMRCo (MARE) as of 1/2/09.

Chairman Bernanke (by the way, he is the world's most knowledgeable expert on the great depression) in his February testimony before congress stated that he expects economic activity to normalize by year end.

What does this mean for the markets? In typical environments the markets tend to anticipate the resumption of economic activity and rise six to eight months in advance. Are their sufficient catalysts to expect a similar pattern this time? Institutional cash is at historically high levels (Figure 3) not seen since signaling that the fuel exists to create a rebound potential of at least average proportions and most likely well in excess.

Figure 3. Money Market funds at relative historic highs

At this point, the major barrier hindering the market's ability to rebound is sentiment. The last few months have witnessed primarily a visceral reaction to the velocity and quality of political behavior. Not fast enough, not good enough was the outcry. The new administration seems to have put in place a team committed to and capable of a successful restoration of public confidence, we will know a great deal more in the very near future as the Treasury Secretary details more financial recovery efforts. With the aforementioned improvements in global interest rates, especially LIBOR (the short term interest rate at which institutions lend to each other), we should see an increased velocity in the movement of capital through the system. This flow of capital is the real measure of improving economic activity.

So what does all this blather come down to quantitatively? What is likely to happen? As we said earlier, we can look to similar historical events to see what occurrences share a commonality and how the world reacted and the resulting rebound effects that restored the world's ongoing pattern of population growth that drives the ever-increasing production and consumption, the engine of growth. The table below (Figure 4) shows twelve periods where similar market impacts have resulted from surprise events.

Figure 4. U.S. Bear Markets history

Historical U.S. Stock Bear Markets (1926-2008)

Peak	Trough	Duration (Months)	Bear Market Magnitude	Recession During Bear?	1-Yr Return After Trough
9/3/1929	7/8/1932	34	-86%	Yes	124%
3/10/1937	4/28/1942	61	-60%	Yes	59%
10/9/2007	11/20/2008	14	-52%	Yes	?
3/24/2000	10/9/2002	31	-49%	Yes	34%
1/11/1973	10/3/1974	21	-48%	Yes	38%
11/29/1968	5/26/1970	18	-36%	Yes	44%
8/25/1987	12/4/1987	4	-34%	No	23%
5/29/1946	6/13/1949	37	-30%	Yes	42%
12/11/1961	6/26/1962	6	-28%	No	33%
11/28/1980	8/12/1982	21	-27%	Yes	58%
2/9/1966	10/7/1966	8	-22%	No	33%
8/2/1956	10/22/1957	14	-22%	Yes	31%
7/16/1990	10/11/1990	3	-20%	Yes	29%
Average (excluding 07-08):		22	-39%	-	46%

The facts we have just outlined suggest it may be time to place the proverbial stick in the sand. Because of the probability of a surprising snapback, where we find ourselves in the hyperbolic moment is largely irrelevant, as the period six months from now will appear so very different than the place we all find ourselves at this moment. Change seems very much in the cards. As Warren Buffet noted last October, he could not call the exact bottom, and he was early, but what he did do was allow himself to recognize an historically significant opportunity, to paraphrase "move toward the fear to realize opportunity, not away from it". That is what the data says we have before us.

We'll talk to you soon.