

# WOOD & WHITE

Investment Advisors, LLC

## **Market Commentary Third Quarter 2009**

To our clients and friends:

An across the board rally in risk-based assets continued through the third quarter, as the global equity and credit markets continued their rebound from the vastly oversold levels of early March. The Dow Jones Industrial Average closed the period up 10.7 % year to-date and 15.0% for the quarter, its biggest quarterly advance in nearly 10 years. The S&P 500 Index posted total returns of 15.6% for the quarter and 19.3% year to-date. September marked the seventh consecutive month of positive returns for the major market indices, with the Dow Industrials and S&P 500 closing the quarter 48% and 56% above their March lows, respectively. The bond market roared higher, with investment-grade and high-yield corporate bonds delivering equity-like returns for the second consecutive quarter.

The magnitude of the recent market rally has not been particularly surprising to us, as panic selling in late 2008 and early 2009 had produced massive distortions in asset prices. The market appears to have been pricing-in a high likelihood of a systemic collapse of the financial system, resulting in an enormous stockpile of cash on the sidelines, as short-term market participants withdrew from the equity markets and awaited signs of stability. In fact, according to data compiled by FMR Company, total money market funds as a percentage of total domestic stock market capitalization stood at a record of nearly 50% in early March. Once the financial markets stabilized and panic abated, this record cash reserve provided fuel for a massive markup in virtually all risky assets. According to the Investment Company Institute, at the end of the third quarter there was still \$3.4 trillion in U.S. money market accounts, versus approximately \$2.5 trillion in mid-2007.

We have kept our clients positioned to participate in the market recovery well beyond the initial rally, and we are pleased to report that our clients have enjoyed strong returns over the past seven months. Looking forward, the relief rally from financial Armageddon appears to be running its course and corporate earnings and economic conditions should soon return as the primary determinants of stock prices. The economy's recovery potential in the near-term will likely be tempered relative to recession recoveries of the past, primarily because the American consumer continues to deleverage. The debt-driven consumption model that has driven economic growth in recent years would appear to be permanently impaired. While we feel this is ultimately a positive for the long-term strength and durability of the U.S. economy, we do not think the magnitude and trajectory of the market's recent recovery is likely to be sustainable. Accordingly, we have taken advantage of the remarkable level of short-term market volatility to selectively take profits over the past few weeks.

From a long-term perspective, we continue to believe that the past 10 years, a “lost decade” for the stock market, has set the stage for improvement in equity performance over the next 5-10 years. We believe firmly that the worst is behind us and that high-quality stocks present a far more compelling long-term opportunity than bonds or cash. Therefore, on any meaningful market pullback, we will remain a net purchaser of equities.

The long bull market in bonds which began with double digit interest rates in the 1980’s, may have peaked when the yield on the 10 year treasury declined to 2.078% in late 2008. The stage may be set for a prolonged bear market in bonds, with rising interest rates for the foreseeable future. Our clients’ fixed income portfolios are well positioned for such an environment.

We welcome your comments and questions at any time. Thank you for your friendship and for your support of our firm.

Sincerely,

**WOOD & WHITE INVESTMENT ADVISORS, L.L.C.**



**Charles B. White, CFA**



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