

Thank God It's Friday!

March 20, 2009



The Market closed with a relatively positive feel, despite today's sell off, after an extremely eventful week. In fact, the DOW had its first consecutive weekly climb for the first time in 11 months. The second stage of the rally came at the hands of the Fed, who announced they are buying US Treasuries. The surprise was not that they were actually doing it, but that they were doing it so soon. This sent stock prices spiking and bond yields plummeting. Remember, lower bond yields means bond prices go higher. It was a busy week for Ben Bernanke, whose historical interview on 60

Minutes helped trigger the Market strength. If you didn't get a chance to see the interview, we highly recommend you do so. We would be happy to send the link.

You might be wondering why the Federal Reserve would be buying Treasuries. The Fed is our central bank, and their primary focus is to provide stability for our financial system in total. Buying Treasuries in the open market will go a long way in bringing down interest rates, which should have great influence on reducing mortgage rates, which should help put a floor under the housing market decline. Our economy will not turnaround until the housing market heals.

The result was a steep decline in the US Dollar (-5% versus the Euro) and surging commodity prices led by crude oil (+7%), which is back above \$50 per barrel. Rising commodity prices usually foretell economic growth, yet another sign that this rally could be for real, and a sustainable recovery is on the horizon. Commodities trade in US Dollars, so a weaker Dollar sends prices higher. Too early to tell, but we like some of the things we're seeing thus far. We have been expecting a weaker dollar considering the sums of money being tossed at the recovery, and US companies with international sales will benefit.

The state of California had its credit rating cut by Moody's from A1 to A2. This was widely expected and the outlook was revised to STABLE. An A2 rating is still strong, and being removed from further credit watch is even better. There has been a great deal of confidence lost in the credit rating agencies over the years as it is clear they were asleep at the wheel. But now they are on high alert, and are being more thorough than ever, which heightens the value of this new rating.

We don't read too much into Friday's sell off as it was a "Quadruple Witching" day. This occurs 4 times per year when 4 sets of options expire simultaneously. This creates additional volatility, and can distort the fundamental backdrop of a Market session. Monday will provide more clarity to the markets direction. Have a great weekend.

By: Mike Frazier