



The Markets

On Wednesday of last week, the S&P 500 index reached a milestone that has occurred only three other times since World War II.

The rare occurrence was this – the index closed 20% *above* its 200-day moving average. The other three times it happened were 1975, 1982, and 1986, according to Bloomberg.

So, how did the stock market perform subsequent to those feats? Well, the news is good for the bulls. A year later, the index had gains ranging from 13% to 20%, according to a research note from Birinyi Associates as quoted by Bloomberg.

On a longer-term basis, both 1982 and 1986 turned out to be good times to invest in the market. Starting in August 1982, the stock market took off on a nearly 18-year secular bull market that was one of the greatest in history. Conversely, if you got in back in 1975, you had to wait seven years before starting to participate in the new bull that began in 1982.

We will need the benefit of history to know if last week's piercing of 20% above the 200-day moving average foreshadows a new, long-term secular bull market. However, we have enough history to know the current rally is very impressive indeed.

| Data as of 9/18/09 | 1-Week | Y-T-D | 1-Year | 3-Year | 5-Year | 10-Year |
|---|--------|-------|--------|--------|--------|---------|
| Standard & Poor's 500 (Domestic Stocks) | 2.5% | 18.3% | -14.9% | -6.8% | -1.0% | -2.2% |
| DJ Global ex US (Foreign Stocks) | 1.6 | 36.5 | 3.3 | -3.0 | 6.0 | 1.9 |
| 10-year Treasury Note (Yield Only) | 3.5 | N/A | 3.4 | 4.8 | 4.1 | 5.9 |
| Gold (per ounce) | 0.4 | 16.4 | 17.3 | 20.4 | 20.1 | 14.8 |
| DJ-UBS Commodity Index | 3.0 | 8.8 | -25.8 | -7.2 | -2.6 | 3.6 |
| DJ Equity All REIT TR Index | 8.6 | 22.4 | -28.4 | -10.9 | 2.6 | 10.1 |

Notes: S&P 500, DJ Global ex US, Gold, DJ-UBS Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT TR Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable or not available.

A CONCEPT KNOWN AS “ANCHORING” may influence whether the stock market is due for a correction or not. In a famous 1974 paper titled, *Judgment Under Uncertainty: Heuristics and Biases*, Amos Tversky and Daniel Kahneman defined anchoring as follows:

In many situations, people make estimates by starting from an initial value that is adjusted to yield the final answer. The initial value, or starting point, may be suggested by the formulation of the problem, or it may be the result of a partial computation. In either case, adjustments are typically insufficient. That is, different

starting points yield different estimates, which are biased toward the initial values. We call this phenomenon anchoring.

As it relates to the stock market, what you pick as your “initial value” may greatly influence whether you are bullish or bearish right now. Let’s illustrate this point using two hypothetical investors.

I. M. Bearish picks the March 9, 2009 bear market low close of 676 on the S&P 500 index as his initial value. This is his anchor.

I. M. Bullish picks the October 9, 2007 all-time closing high of 1,565 on the S&P 500 index as her initial value, and, hence, her anchor.

From the standpoint of I. M. Bearish, he looks at the 58% increase in the S&P 500 index between the March 9 low and last Friday and says, “After that incredible rise, this market is way overdue for a correction.” Conversely, I. M. Bullish looks at the 31% decline in the S&P 500 between the October 9, 2007 high and last Friday and says, “This market has lots of room to soar since it is still well below its all-time high.”

The concept of anchoring is critically important for investors because where you plant your anchor could either limit or expand your ability to understand extreme moves in the market. Anchoring on the March 9 low makes it difficult to fathom that the market can keep moving higher. Anchoring on the October 9 all-time high gives you the green light to think it can keep going up.

Anchoring applies to life, too. Dwell on an unhappy past and you are effectively tossing your anchor in a stormy sea. Focus on the possibility of a bright future and you are effectively setting sail in the azure waters of an exotic location. Some people might simply call this being a pessimist or an optimist.

Knowing where to “anchor your anchor” could be the difference between success or failure – in the markets and in life.

Weekly Focus – Think About It

“When one door closes another door opens; but, we so often look so long and so regretfully upon the closed door, we do not see the ones which open for us.”

-- Alexander Graham Bell

Best regards,
Scannell Wealth Management Group

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we’ll ask for their permission to be added.

* The Standard & Poor’s 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

* The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks.

* The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.

* The Dow Jones World (Ex. U.S.) is an unmanaged group of securities considered to be representative of the non-U.S. stock market in general* The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. * The Dow Jones World (Ex. U.S.) is an unmanaged group of securities considered to be representative of the non-U.S. stock market in general. * Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.*To unsubscribe from the Weekly Market Commentary, please reply to this e-mail with “unsubscribe” in the subject line.

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