Just one year ago today…

We had a great week this week with the market gaining 3+%. The gains were driven by much better than expected economic news and better than expected employment news today. In addition, several major mergers were announced this week continuing the trend of companies putting their stored up cash to work to take advantage of attractive business opportunities. More on that in a minute. But for now, let's reflect on where we were one year ago. On March 6, 2009, the market sell-off reached its crescendo. That day the Dow Industrials opened around 6,600, traded lower to 6,469, turned around and closed the day at 6,626. The low on that Friday was *"THE"* low. On Tuesday of the following week the Dow closed at 6,926 (*300 points higher*) and never looked back. When the financial crisis kicked into full gear in September of 2008, the Dow stood at 11,388 and by March 6th, it had lost 43% of its value in less than six months. But on that day, we bottomed and as you know we have rallied back. As of today, the Dow is up some 60% from the low and now stands at 10,566. What a difference a year makes.

In our weekly email that week we said the following:

It is like a beach ball being pushed under water. The deeper you push it the greater the pressure is to release it. The deeper it goes, the faster it snaps back. The same is true for stocks. Mild corrections in stock prices are typically met with tame rallies. History shows that severe, extreme bear markets are usually met with snap back recoveries that are dramatic and fast. It is going to take a long time to get back to 14,000 on the Dow but the move to 8,000 or 9,000 could come extremely quickly and it will be driven by the factors listed above.

Almost none of the market experts on CNBC believed this would happen – in fact, the overwhelming consensus was the market was likely headed much lower. Sometimes it pays to ignore the crowd. Just two weeks before the market made its bottom, Senator Lindsey Graham of South Carolina infamously said, *"We have to consider nationalizing our banks"*. Can you imagine where we'd be today if Bank of America, Wells Fargo and JPMorgan had been nationalized? If their shareholders had been totally wiped out? Today, the combined market value of those three banks is almost $500 billion. Can you imagine the loss of a-half-a-trillion dollars of American wealth from that action and what the impact of that would be? Think of what our country would be like today if the three largest banks were fully owned and operated by our government. My, oh my, how far we've come in a year's time. As capitalists and investors we shudder to think of what might have been and, at the same time, rejoice at the simply incredible recovery we've seen from the edge of the abyss. It has been a remarkable year.

Over the past year, we have been very bullish and we remain so today. Remember where we were in September of 2008 against the backdrop of what would transpire over the next six months to that March low. On September 15, 2008, Lehman Brothers filed bankruptcy. That same day, Merrill Lynch nearly failed and was forced into the arms of Bank of America in a government backed takeover. The next day AIG nearly collapsed and later that week, Morgan Stanley teetered. The Dow ended that week at 11,388 and just three weeks later had fallen 26% to 8,451. Over the next months, the credit markets seized up, the unemployment rate soared and businesses quit spending money as we braced for a possible depression. By February conservative, Republican senators were calling for the nationalization of our banks.

Consider where we were in September of 2008 when the Dow was 11,388 and all that we had yet to go through – all the bad news to come. Now compare that to where we are today with the Dow at 10,566 in light of all of this: We've made tremendous progress toward healing our banking system. The big banks have fully repaid TARP and owe the government *nothing*. The unemployment rate is getting better. Corporate earnings have significantly turned the corner and are forecasted to rise almost 30% this year. Corporations hold more cash today than ever – in fact, 31% more cash today than they had a year ago. Consumer confidence is improving. 401(k) balances are much higher than they were a year ago. Home prices have stopped falling and are rising in a lot of markets. We have exited a recession and our economy is growing as evidenced by a very strong GDP.

So we are 1,000 points ***lower*** today than we were in September of 2008 and things are so much ***better*** -- frankly, *incredibly* better -- today compared to then. This is the primary reason we are so optimistic – values are lower and conditions are remarkably better.

We'll close with this summary from this week's Wall Street Journal on the trends in corporate cash, dividends and share buy backs. *"The 382 non financial firms in the S&P 500 that have reported 4th quarter earnings are now holding $932 billion in cash and short-term investments. That is up 8% from the 3rd quarter and an amazing 31% from a year ago. With low rates, reopened credit markets and growing optimism about the economy, CEO's and their boards are now questioning the wisdom of sitting on all that cash. Walgreen – for instance – decided that spending $618 million of their cash on buying NYC drug store chain Duane Reade was a much better use of the cash. After halting stock buybacks during the financial crisis, managements are now starting to buy back stock. There were 62 announced buy backs in February valued at $40 billion the biggest month for announced buy backs since September 2008. Dividends are being boosted as well – over the past three months 79 companies have increased their dividends."*

It is sweet music to our ears.

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