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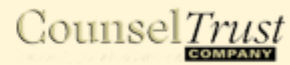
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- ◆ **If history is any guide, we are well into the third of possibly five or six bear market rallies typical of recessions this deep and this wide. These rallies (sometimes called ‘dead cat bounces’) set the necessary base for a new bull market. For example, there were six 20%+ rallies between 1929 and 1932 before the market ultimately made its final low.**
 - **Since last October, we have seen three significant rallies:**
 - **18% from late October to early November;**
 - **24% from late November to early January;**
 - **And most recently, 24% from early March to early April.**
 - **Even though we think this is most likely another rally, it is assisting in forming that all important bull market base.**
 - **Unlike the previous two, this rally has unusual strength, uncharacteristic of the typical low volume bear market rally, subject to a rapid burn out. This latest rally also has impressive breadth: advancing stocks outnumber decliners by a margin of 2 to 1.**
 - **Since 1950, there have been only 14 instances where that has happened and in every case, prices were lifting off a major bottom or entering a new bull market.**
- ◆ **Caution is still warranted. Valuations have also jumped without any real increase in earnings.**
 - **The PE (price to earnings) ratio for the S&P 500 as of the March 6 low was 11 times projected 2009 earnings.**
 - **Now the PE is over 13 with no earnings increase announcements.**
 - **Ultimately, better earnings must accompany a new bull market.**
- ◆ **How do we determine the difference between a bear rally and a new bull?**
 - **As each successive low witnesses fewer stocks making individual lows, it means that stocks are trading on their own merits with investors no longer skittish about the macro picture.**
- ◆ **But the macro picture remains a cause for concern, especially with regard to future inflation.**
 - **According to Bloomberg News, the Federal Reserve and U.S. Treasury have spent, lent or otherwise committed \$12.8 trillion, almost equal to the annual gross domestic product (GDP) – the total of all goods and services produced and delivered in the U.S. in one year.**
- ◆ **Never in history has any government tried to ‘stimulate’ its economy with the intensity of this government.**
 - **The second ‘stimulus’ includes buying toxic assets (the mortgage securities) and purchasing US Treasuries at unprecedented levels.**
- ◆ **On a positive note, the Financial Accounting Standards Board (FASB) has finally liberalized the overly severe ‘mark to market’ accounting rule for mortgage backed securities.**
 - **Instead of pricing many of these securities at \$.10 on the dollar, they can now be priced at \$.40 to \$.90 on the dollar reflecting the actual cash flow instead of the lower marketability price.**



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