STANDARD & POOR'S

Change, the Only Constant

As of September 30, 2009, the Dow Jones Industrial Average had advanced nearly 50% from its bear market bottom, while the Nasdaq and S&P 500 had clawed their way even higher, up 67% and 56%, respectively.

Two anniversaries serve as reminders of the market's fickle path and the difficulty of predicting where it goes from here.

October 9 marks the two-year anniversary of the stock market's all-time high, as measured by the S&P 500. And September 15 was the one-year anniversary of the market meltdown triggered by the bankruptcy of Lehman and the $85 billion bailout of AIG.

The two anniversaries are significant in that they point to the bumpy road traveled over the past two years and the obstacles investors have faced when trying to structure their portfolios to adapt to dramatically changing circumstances.

Bears, Bounce-Backs, and Bernanke's Optimism

The S&P 500 officially entered into a bear market on July 15, 2008, when it fell 22.4% from the October 9, 2007, high, thus piercing the 20% definitional threshold. From July 15 through September 12, the "500" had edged 3% higher as investors wondered if the worst was behind them. Then the market fell nearly 5% on September 15, declined 11% in the remaining two weeks of the month, and plummeted 35% through November 20. After a brief 20% bear market rally through early January 2009, the S&P 500 went on to fall an additional 10% from the November 2008 low until the eventual bottom on March 9, 2009. Things had gone from bad to worse.

Jump ahead to today, however, and it appears to be a different story. As of September 30, 2009, all three major U.S. stock indexes were near their highs for the year. The Dow Jones Industrial Average had advanced nearly 50% from its bear market bottom, while the Nasdaq and S&P 500 had clawed their way even higher, up 67% and 56%, respectively.

And despite a disheartening lack of new jobs, statistical evidence is mounting that the economy may be pulling out of its funk, prompting Federal Reserve Chairman Ben Bernanke to declare in September that the recession is "very likely over."

Stocks are still in negative territory compared to one year ago, and the economy still faces challenges, but their recent resurgence - and the potential effect on portfolio strategies - can't be ignored. While some pundits suggest the market has raced ahead of fundamentals and may be poised for another setback, others are hopeful that its recent bullish behavior may be a sign of more growth to come.

Portfolio Strategies

With U.S. stocks up about 50% - or more - from spring lows, investors across the globe are eager to see what comes next. Clearly, today's dynamic market and economic environment deserve special attention.

- **Look for buying opportunities during pullbacks.** Even if the market does experience some profit-taking over the near term, S&P's Investment Policy Committee believes that the longer-term trend remains positive and that pullbacks might be used as possible buying opportunities.

- **Think twice before letting October spook you.** Despite the two tremendous selloffs that took place during the month - the 22% one-day decline on October 19, 1987, and "Black Tuesday" on October 29, 1929 - October's long-term average performance is actually quite unexciting over the past 80 years. Yet in the 14 Octobers following the end of bear markets, the S&P 500 advanced an average 3.2% and fell only 29% of the time (4 of 14 times) as investors continued to bid up shares during the crucial first 12 months of a new bull market. Remember, however, that past performance is no guarantee of future results.

- **Consider cycle-sensitive sectors.** Early-cycle stocks, such as those in the technology and transportation sectors, have historically outperformed when an economic recovery is getting underway, as have small caps. S&P currently recommends overweighting the Energy, Industrials, and Materials sectors. S&P currently recommends underweighting the Telecommunication Services and Utilities sectors.

Investing in stocks involves risk, including loss of principal. Sector funds may be more volatile than funds that diversify across many sectors or industries.

© 2009 Standard & Poor's Financial Communications. All rights reserved. Reproduction in whole or in part is prohibited without the express permission of Standard & Poor's Financial Communications. Visit us online at http://fc.standardandpoors.com or call us at 1.800.326.7697