Please note the following change since this document was originally published.

Effective May 1, 2013, J.A. Glynn & Co. changed our corporate structure to better support our long-term growth plans. The investment advisory services previously provided under the name JAG Advisors are now provided by JAG Capital Management LLC, an SEC-registered investment advisor.

JAG

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3 Years Later: A Look Back at March 2009

Norm Conley, CEO/CIO and Mike Buck, CFA, Quantitative Analyst

Between August 2007 and the Spring of 2009, the global economy was buffeted by a series of cataclysmic disruptions. There is no need to revisit all of the sordid details here. Like a profoundly scary movie, most of the events that transpired are still (unfortunately) branded into our memories. For the curious or forgetful among us, several feature films, dozens of books and academic papers have already been produced on the subject, with many more to follow. Suffice it to say that we witnessed all manner of history being made, with "lowlights" that included a housing market collapse, a deep and prolonged economic recession, devastating declines in all manner of asset prices, and the worst credit crisis in over 80 years.

After gapping and grinding lower through all of 2008, the U.S. equity market finally reached what was probably a generational low on March 9, 2009. After hitting an "evil" intraday low of 666, the S&P 500 Index closed the day at 676. With the full benefit of hindsight, this finally proved to be the floor for U.S. stocks. In fits and starts, and despite public skepticism all along from many pundits and experts, stock prices have gained an enormous amount of ground in the last three years.

The arrival of this dubious three-year anniversary inspired us to put together the following series of comparative tables. We have compiled and categorized a variety of market and economic data points into column form. For each item, we display its value as of 3/9/2009, compared to its value as of 3/9/2012. Where relevant, we have calculated the percentage change of each item over the three year period.

Table 1 *(Sources: Yahoo Finance, S&P, Investment Company Institute, KITCO, Energy Information Administration, Bureau of Labor Statistics, JAG Advisors)*

Equities, Commodities, & Inflation	3/9/2009	3/9/2012	% Change
S&P 500 Index	676.53	1,343.36	98.57%
Nasdaq Composite	1,268.64	2,910.32	129.40%
Dow Jones Industrial Average	6,547.05	12,759.15	94.88%
Financial Sector SPDR Fund (XLF)	$5.98	$14.45	141.64%
S&P 500 Trailing 12 Months P/E Ratio (Reported EPS)	29.1	15.7	-46.21%
S&P 500 Trailing 12 Months Earnings (Reported EPS)	$14.88	$87.25	486.36%
Domestic Equity Mutual Fund Flows (12 Month Trailing sum)	-$120,253.00	-$159,910.00	32.98%
Bond Mutual Fund Flows (12 Month Trailing sum)	$26,539.00	$170,533.00	542.58%
Gold (per ounce)	$923.75	$1,669.00	80.68%
Silver (per ounce)	$13.36	$33.22	148.65%
Crude Oil: West Texas Intermediate Spot Price	$47.01	$104.71	122.74%
Crude Oil: Brent Spot Price	$44.55	$125.03	180.65%
Consumer Price Index (CPI)	0.03%	2.93%	
CPI Core	1.68%	2.28%	
Producer Price Index (PPI)	-2.52%	4.38%	
PPI Core	-3.96%	2.96%	
Unit Labor Costs	109.602	108.532	-0.98%

Our Takeaways from Table 1:

- Somewhat counter-intuitively, and despite a huge rally in stock prices, the S&P 500's trailing P/E ratio has actually *declined* since March 2009. This is due to the enormous rebound in reported earnings (the denominator of the P/E equation) for the S&P 500. Reported earnings have grown more than 4x *faster* than stock prices, the S&P 500's P/E ratio has compressed by more than 46%.
- Investors in stock mutual funds could not care less about the stock market's strong performance over the past three years. In fact, they have continued to pull their cash from stock funds at an even *faster* pace than they maintained in the year leading up to March 2009. Bond fund investors, on the other hand, appear to be in the throes of a full-blown buying frenzy. As cautiously optimistic bulls, we consider the ongoing flight from equity funds to be a potentially powerful contrary indicator.
- Precious metals and crude oil prices have exploded higher, but so far this has not been translated into high inflation in consumer or producer prices. Over time, however, higher commodity prices could place upward pressure on producer prices, and eventually drive consumer prices higher. We believe inflation could begin to creep higher as soon as 2013.
- Unit labor costs have actually *declined* slightly since 2009. This speaks to the still-sleepy job market and hints at one of the major reasons corporate profit growth has been so strong. Continued strength in the job market is very likely to drive unit labor costs higher.

Table 2 *(Source: Federal Reserve H.15 Release, JAG Advisors)*

Bond Market	3/9/2009	3/9/2012	% Change
2-Year Treasury Yield	0.96	0.31	-67.71%
5-year Treasury Yield	1.90	0.87	-54.21%
10-Year Treasury Yield	2.89	2.00	-30.80%
30-Year Treasury Yield	3.59	3.13	-12.81%
BAA-rated Corporate Bond Yield	8.29	5.11	-38.36%

Our Takeaways from Table 2:

- ♦ Two rounds of Quantitative Easing combined with persistent global risk aversion have driven bond yields to historic lows. Over the very long term, basement-dwelling interest rates are not healthy (Exhibit A: Japan) for a banking system or an economy.
- ♦ As the saying goes, "this too shall pass." Eventually, bond yields will begin to rise. In our view, moderately-higher interest rates would be a net positive for the economy, but the process of getting those rates could be painful for investors in long-duration assets.

Table 3 *(Source: FR H.15 & H.4.1 Releases, Bureau of Labor Statistics, Treasury Department, Bureau of Economic Analysis, JAG)*

Government & Macroeconomic Statistics	3/9/2009	3/9/2012	% Change
Dollar Index	86.29	72.67	-15.79%
Reserve Bank Credit (millions)	$1,891,362	$2,908,201	53.76%
Currency in Circulation	$898,492	$1,089,200	21.23%
Real GDP (billions of $ at saar)	12,883.5	13,429.9	4.24%
Real GDP QoQ Growth Annualized	-6.77%	2.98%	
Industrial Production	87.451	95.9054	9.67%
Retail Sales (millions of $ at saar)	$338,841	$401,400	18.46%
Auto Sales (millions)	9.247	15.100	63.30%
U.S. Debt Subject to Limit (millions)	$10,569,310	$15,488,891	46.55%
Trailing 12 Month Sum of Federal Receipts	$2,435,684	$2,333,905	-4.18%
Trailing 12 Month Sum of Federal Outlays	($3,197,451)	($3,561,097)	11.37%
Trailing 12 Month Sum of Federal Deficits	($761,767)	($1,227,192)	61.10%
Initial Claims for Unemployment	655,000	351,000	-46.41%
Initial Claims for Unemployment (4-Week Moving Average)	643,750	354,000	-45.01%
Non Farm Payrolls (thousands)	133,561	132,409	-0.86%
Unemployment Rate	7.8%	8.3%	
U-6	14.2%	15.1%	
Personal Income (billions of $ at saar)	12,075.7	13,238.0	9.63%
Private Wages	5,161.9	5,670.8	9.86%
Interest Income	1,237.2	974.4	-21.24%
Dividend Income	682.6	823.5	20.64%
Govt Transfer Payments	1,965.3	2,295.3	16.79%
Disposable Personal Income	10,847.0	11,766.8	8.48%
Personal Consumption Expenditures	9,798.5	10,901.9	11.26%

Our Takeaways from Table 3:

- ♦ We expect many of these data points to be front-and-center during the upcoming U.S. Presidential elections. As a country, we face some serious long-term challenges, with few easy solutions. We urge our clients and friends to be informed voters this year, regardless of political affiliation!
- ♦ The Dollar has weakened meaningfully, at least in part due to Fed-engineered cash infusions in the banking system and a higher amounts of currency in circulation.
- ♦ Real GDP has shown stubborn improvement, and the economy is growing again. This is preferable to the alternative, but annualized real GDP growth of roughly 3% is definitely not exciting.
- ♦ The amount of U.S. debt subject to the debt limit has skyrocketed. Federal tax receipts are down, while Federal outlays are up. As a nation, we are spending more than we are making, leading to a huge increase in the Federal deficit.
- ♦ The job market is coming back, but the unemployment rate remains elevated at over 8%. The U-6 rate, which includes so-called "underemployed" workers, is hovering much higher.
- ♦ Income-oriented investors are in the "crosshairs." While overall Personal Income is up nicely, note the significant *decline* in Interest Income. This is stark evidence of the effect that extremely low yields have had on American savers and investors.