

THIS LITTLE PIGGY WENT TO MARKET

Recently, Swine Flu was the lead article on all major financial media across the globe as markets opened in sequence from Asia to Europe to North America. Invariably, the articles were dire with presumptions that the disease would at best delay economic recovery and at worst send economies worldwide into a tailspin. Along with the lead articles were tangents that pork prices would collapse and sales of surgical masks would skyrocket.

I do not recommend kissing sick Mexican pigs, but the near hysterical media sensationalism with unwarranted presumptions deserves some mention. The disease is not transmitted by eating pork. The Center of Disease Control (CDC) says that viruses are so small that they flow easily through surgical masks. And, there is no direct correlation between pandemics (or epidemics) real or threatened and stock pricing. Sometimes, stock prices even go up. For example, during the big one (Spanish flu of 1918 estimated to have killed 50 million people) the Dow gained over 15%.

The public needs to be informed, but it would be nice to place events in a mature factual framework. We don't know how many people threw out their pork chops, donned a mask or prepared for imminent financial Armageddon. We do know the President in a fatherly manner told the public to stay calm and wash their hands, the Vice President stated he is frightened to fly on commercial airplanes in fear of contracting the disease and the pork producers had the name changed from Swine Flu to H1N1 Virus.

To the chagrin of some in the sensationalized media, the Dow Industrial Average and S&P 500 (usual institutional benchmark) have advanced seven of the past eight weeks.

For the month of April, the S&P gained 9.4%, its best monthly performance in 9 years. Combine March and April, the S&P had its best two-month period (+18.7%) since 1975. Since the March 9 lows, the Dow has gained approximately 25%; the S&P 500 gained approximately 95%. Early stages of the advance were of a magnitude not seen since the 1930s.

There is no way to comprehend the current condition without full recognition that the amount of stimulus measures (additional money supply already created with more likely) is the most massive in history. The money has to go somewhere.

Worth notation, the advance of 1938 (to which the advance of March lows is similar) occurred when rules were imposed against manipulative short selling. This time, the advance ignited on the same day leadership in both the House and Senate announced their recognition of the existence and effects of

manipulative short selling practices. They also threatened legislation if the Securities and Exchange Commission (SEC) continued to favor short selling by both changing and failing to enforce trading rules designed to thwart manipulative short selling practices.

It is rare for abusive trading practices to gain such publicity. Many high profile people and entities are being featured, but praise is deserved for Congressman Gary Ackerman (D-NY) for his tenacious efforts in initiating momentum against corrupt practices. No matter what the SEC does or does not do, the massive additional money supply created by historic stimulus actions (domestic and international) is not going away.

Here are some additional "factoids" worth pondering courtesy of By The Number, May 04, 2009 Edition.

- The findings of the Treasury Department's "stress tests" completed on 19 large US banks were recently released. Secretary Tim Geithner originally announced the tests on 2/10/09. The banks were put through financial simulations to determine if they could survive a 2-year economic slump that included national unemployment rates above 10% and an additional drop in home prices of 25% from today.
- Since 1950, the highest marginal tax bracket for individuals has ranged from a high of 92% (1953) to a low of 28% (1990). The highest individual marginal tax bracket is 35% today.
- Finally speaking of pork, the 2010 mid-term elections are less than 18 months away. All 435 members of the House of Representatives and 34 of the 100 US senators will be up for re-election on 11/2/10.

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