



Ned Davis Research Group

CURRENT STATE OF U.S. AND GLOBAL FINANCIAL MARKETS

2009 Financial Planning Symposium

Denver | October 29, 2009

Tim Hayes, CMT, Chief Investment Strategist

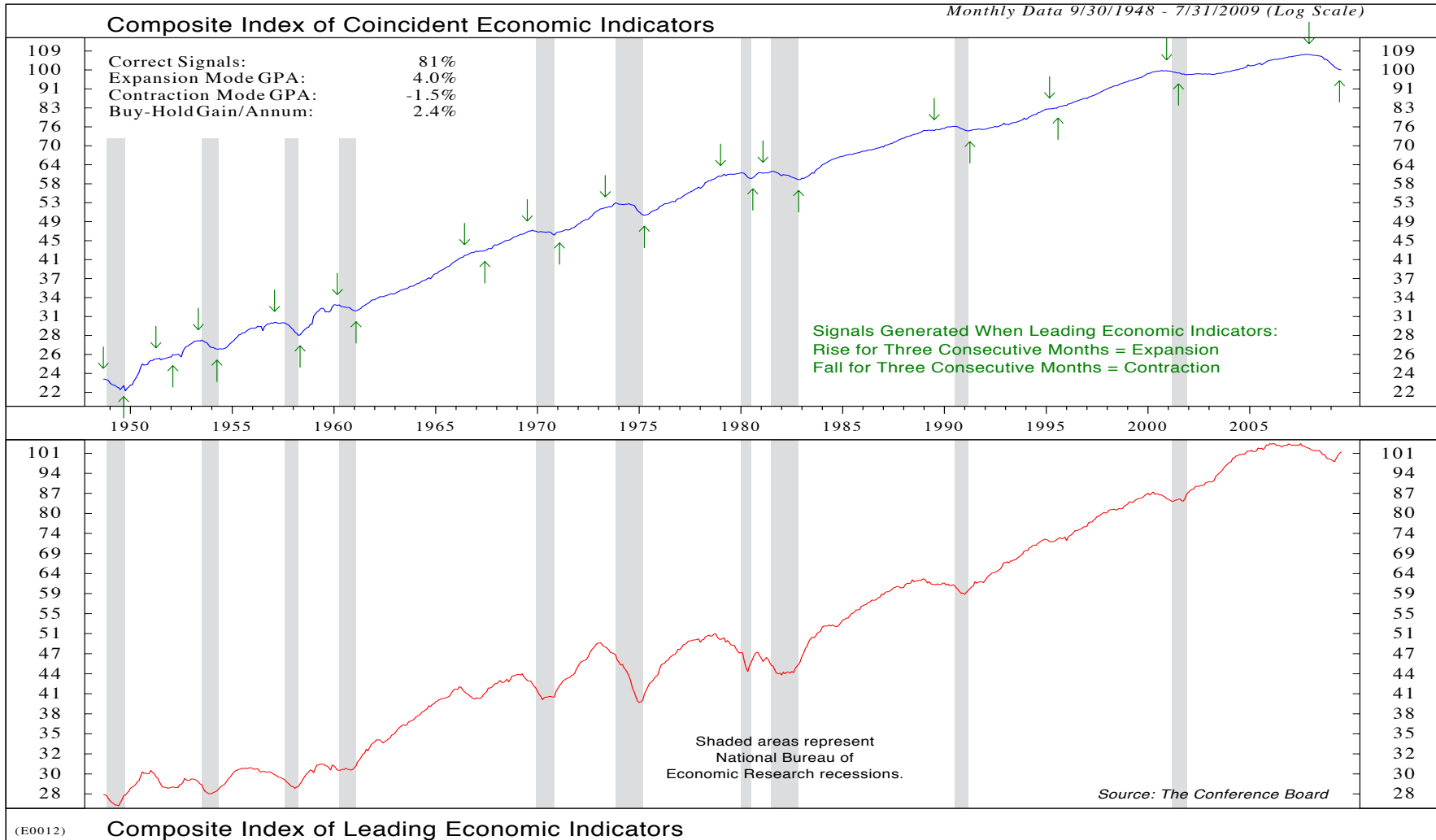
CYCLICAL STATE (INTERMEDIATE-TERM)

- March market bottom led June economic bottom.
- Strong start to cyclical bull led strong economic rebound.
- Market advance now moderating. Economic recovery to moderate by 2010.
- High beta markets and sectors have led recovery, now focus on post-recession tendencies.
- Cyclical bull market could take the S&P to 1200, DJIA to 12,000.
- Excessive optimism, rising interest rates, and overvaluation would raise risk of another cyclical bear next year.

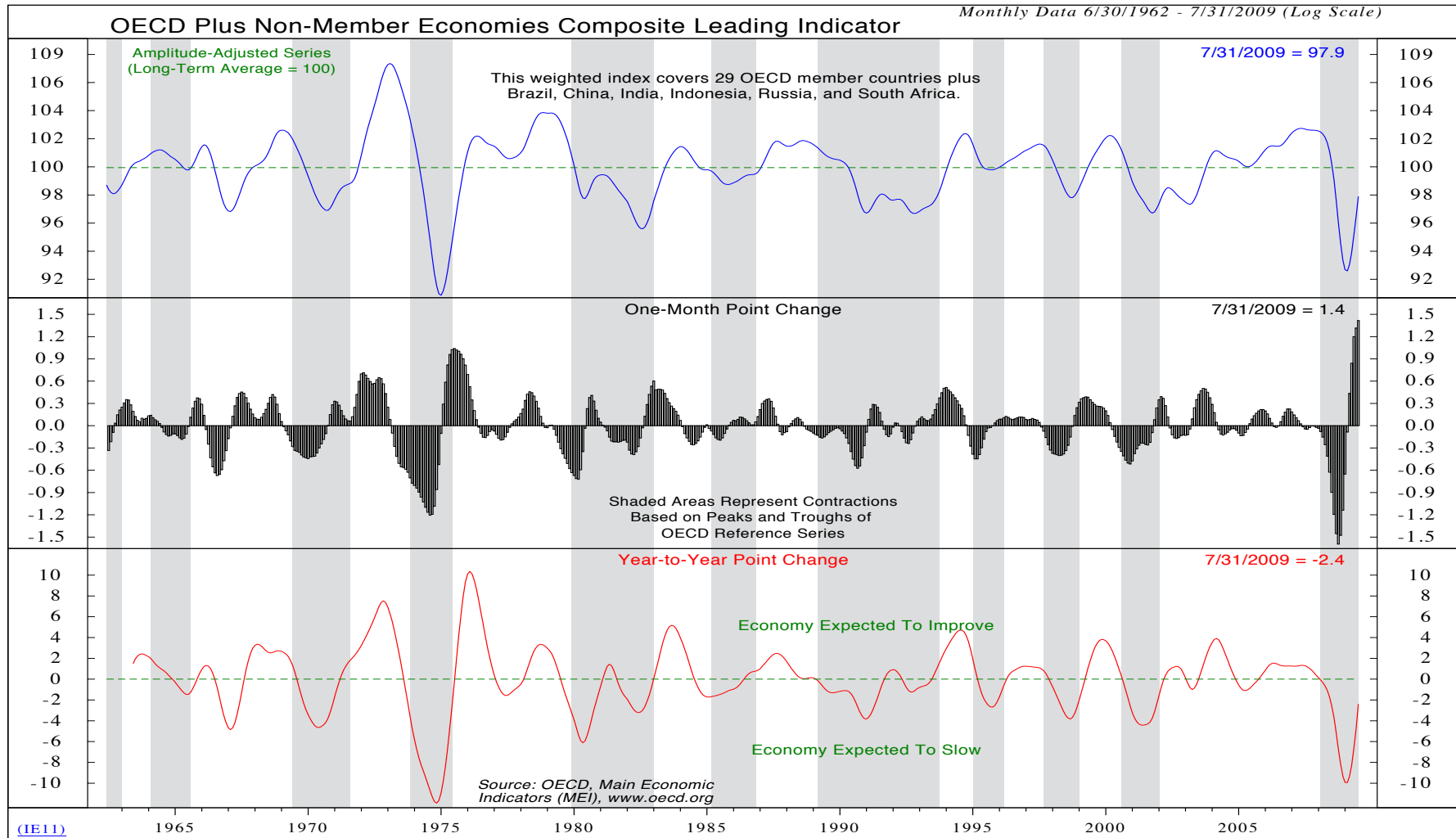
SECULAR STATE (LONG-TERM)

- For U.S. and other developed markets, cyclical bull occurring within continuing secular bear.
- Bear characteristics: sub-par annualized returns and economic growth, transition from overvaluation to undervaluation.
- For emerging markets and commodities, cyclical bulls occurring within continuing secular bull.
- Bull characteristics: relatively strong market returns and economic growth, transition from undervaluation to overvaluation.

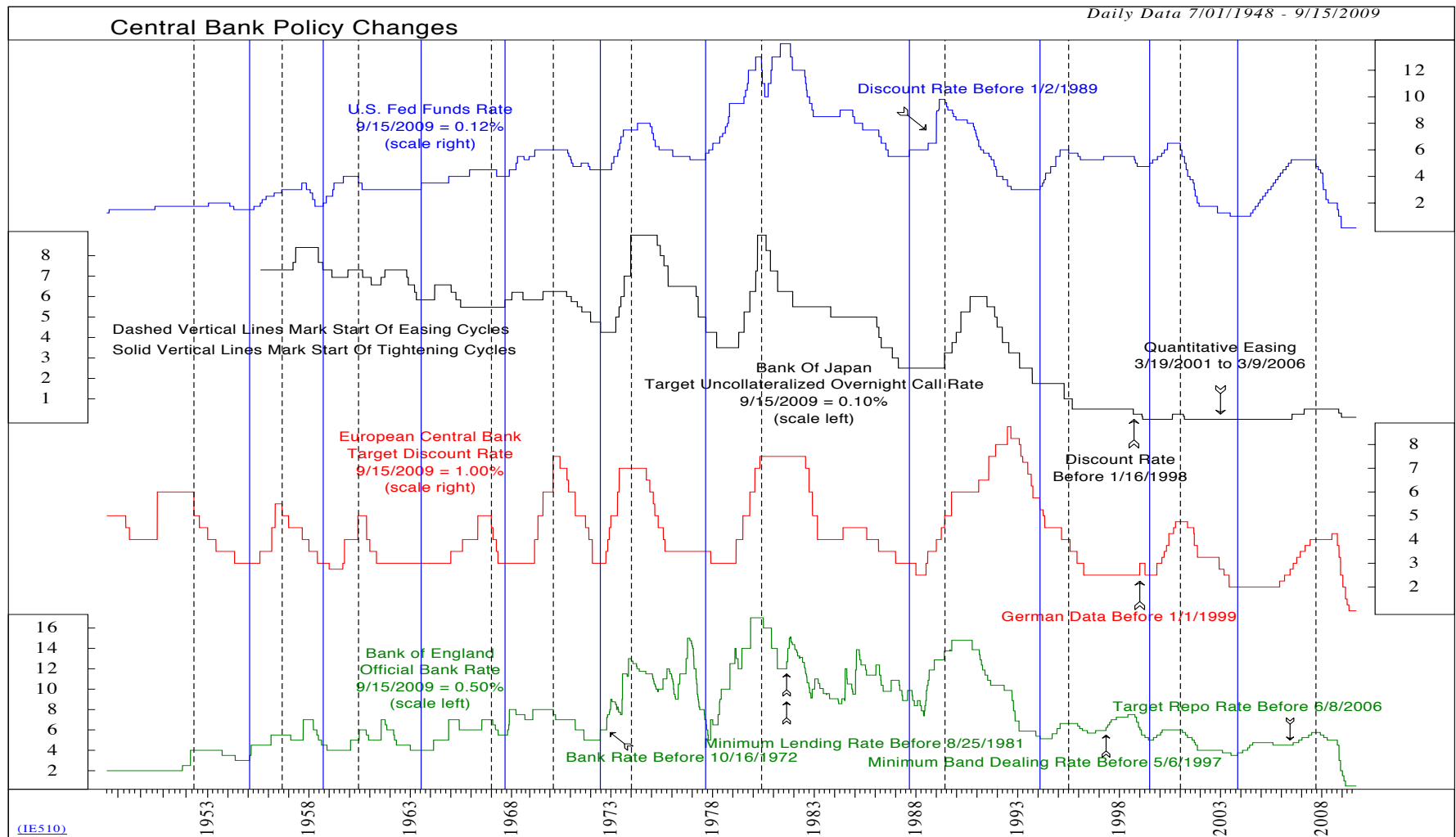
Recession ended in June...



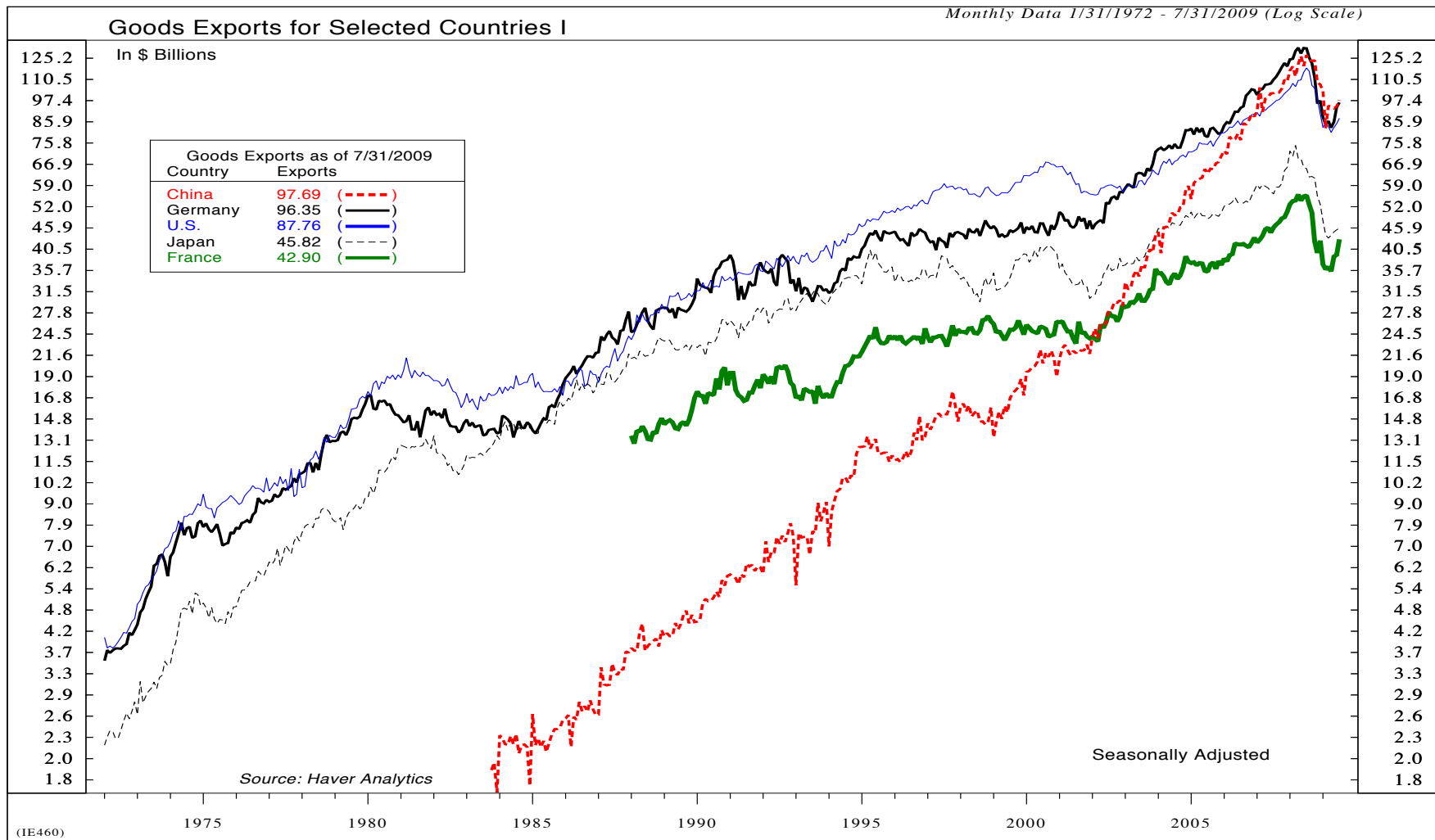
...and the recovery is global in scope.



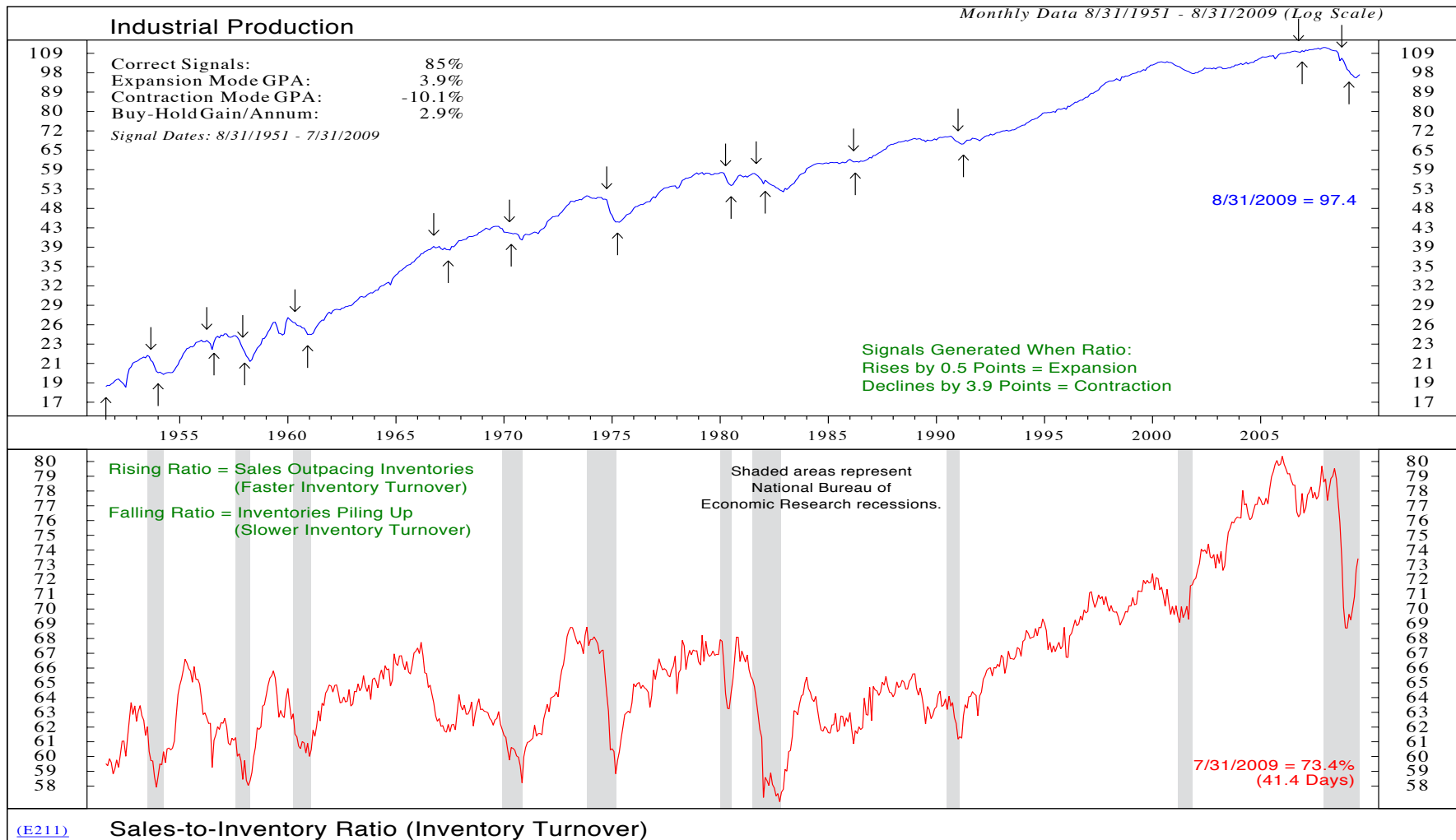
Economies responding to massive stimulus and extremely low rates globally.



Global economic recovery evident in export data.



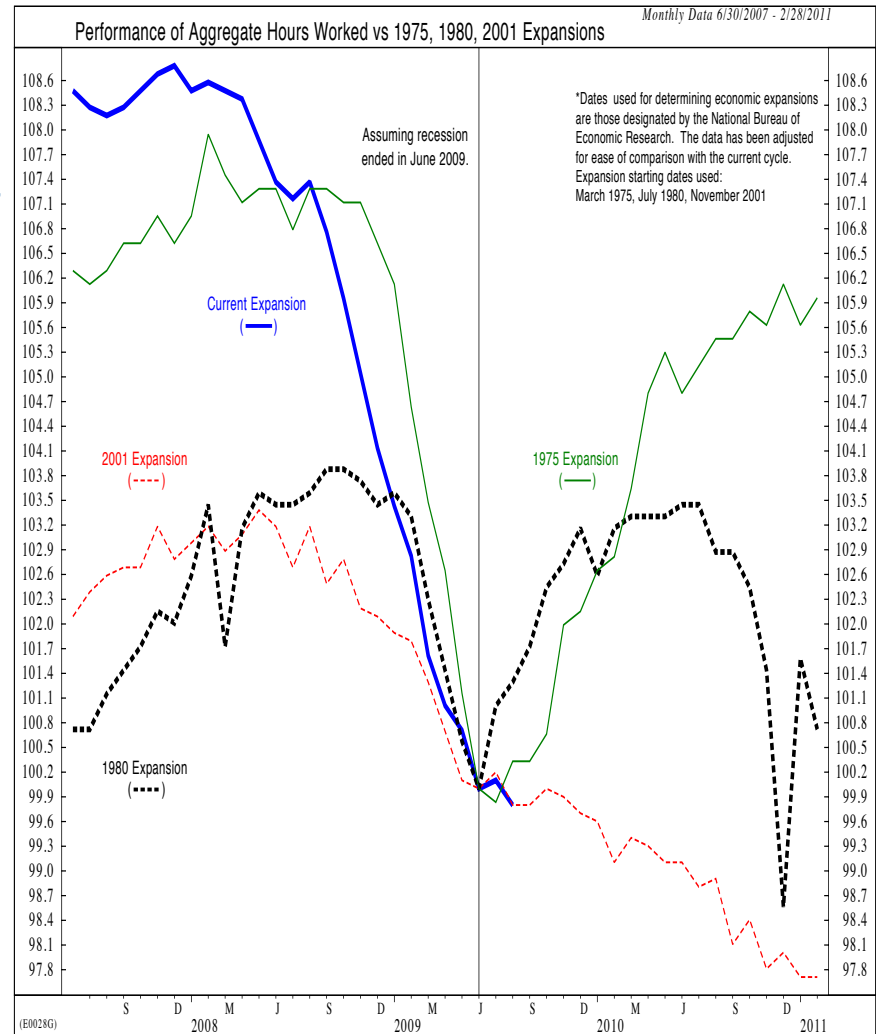
U.S. economy boosted by inventory rebound...



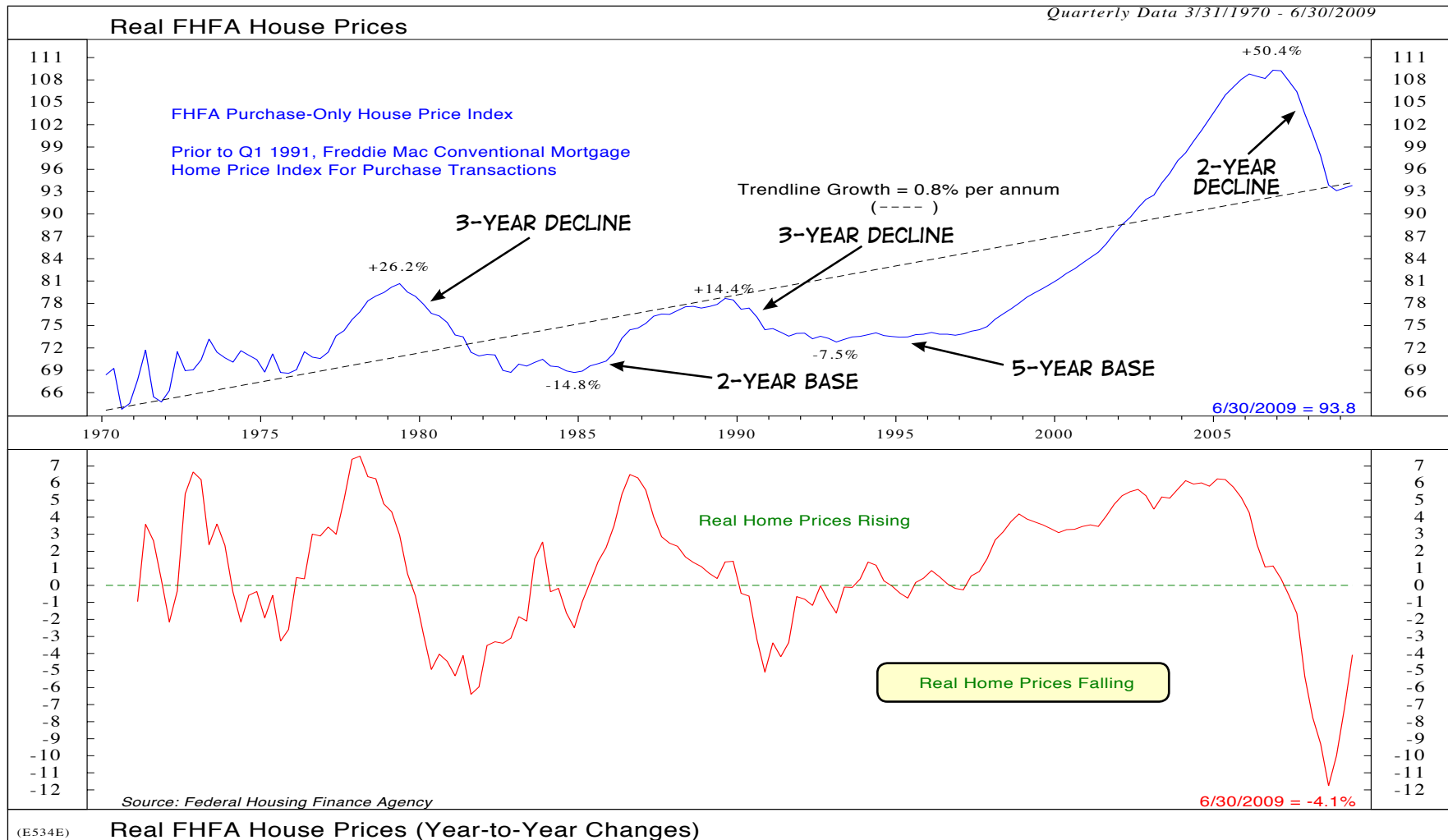
...but growth likely to moderate in jobless recovery.

AN INVENTORY REBOUND

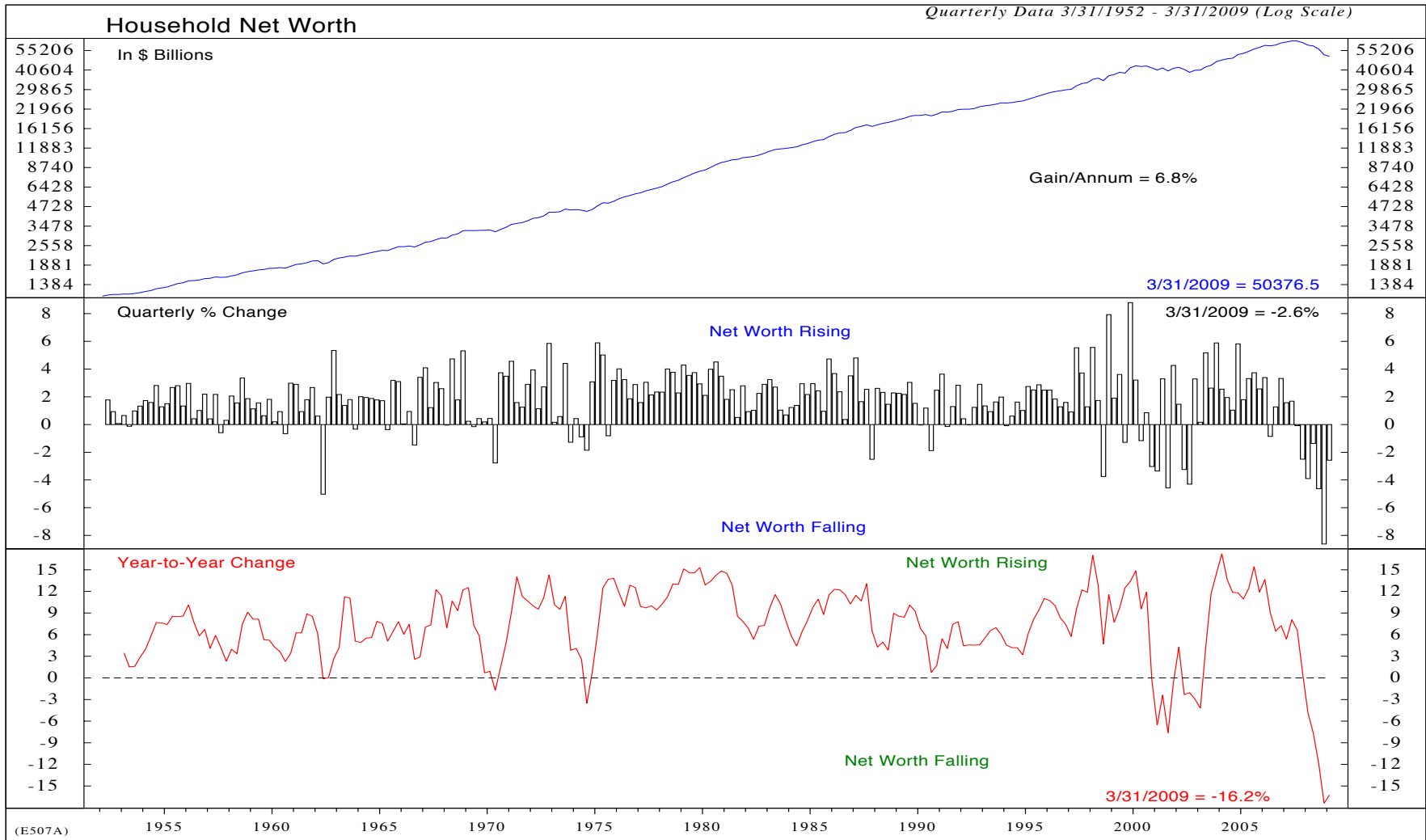
FOLLOWED BY SLUGGISH GROWTH



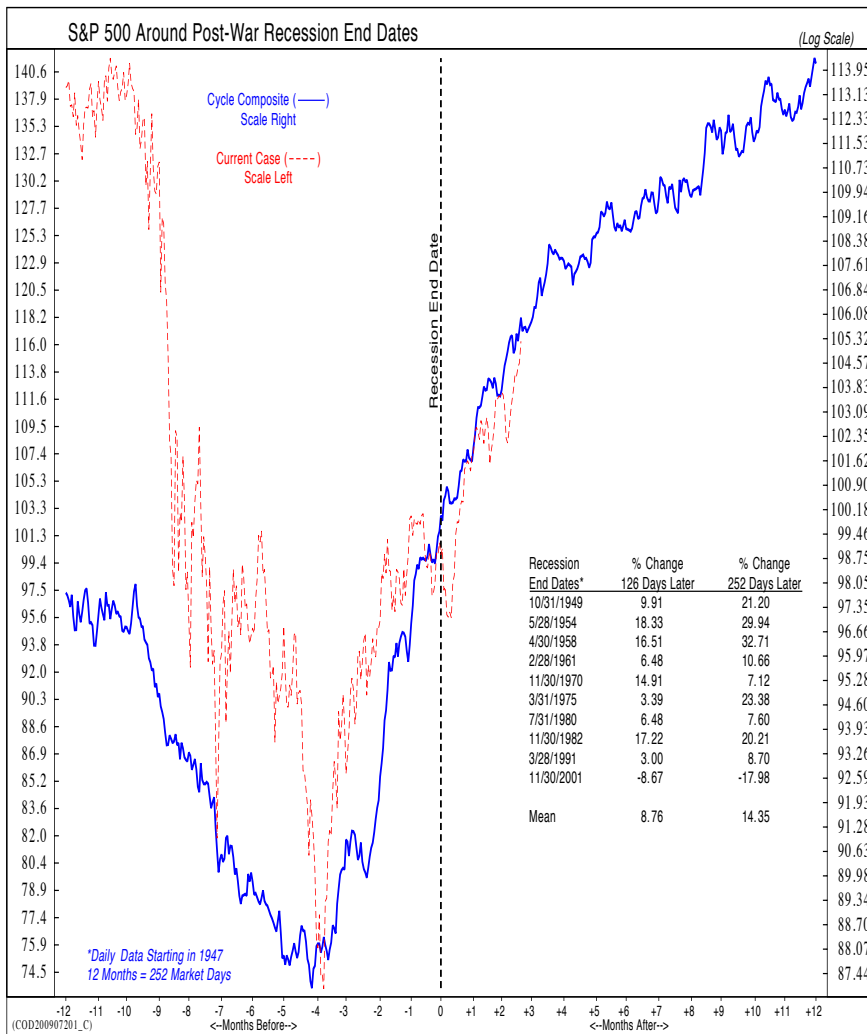
Housing outlook is more positive, but price recovery will take time.



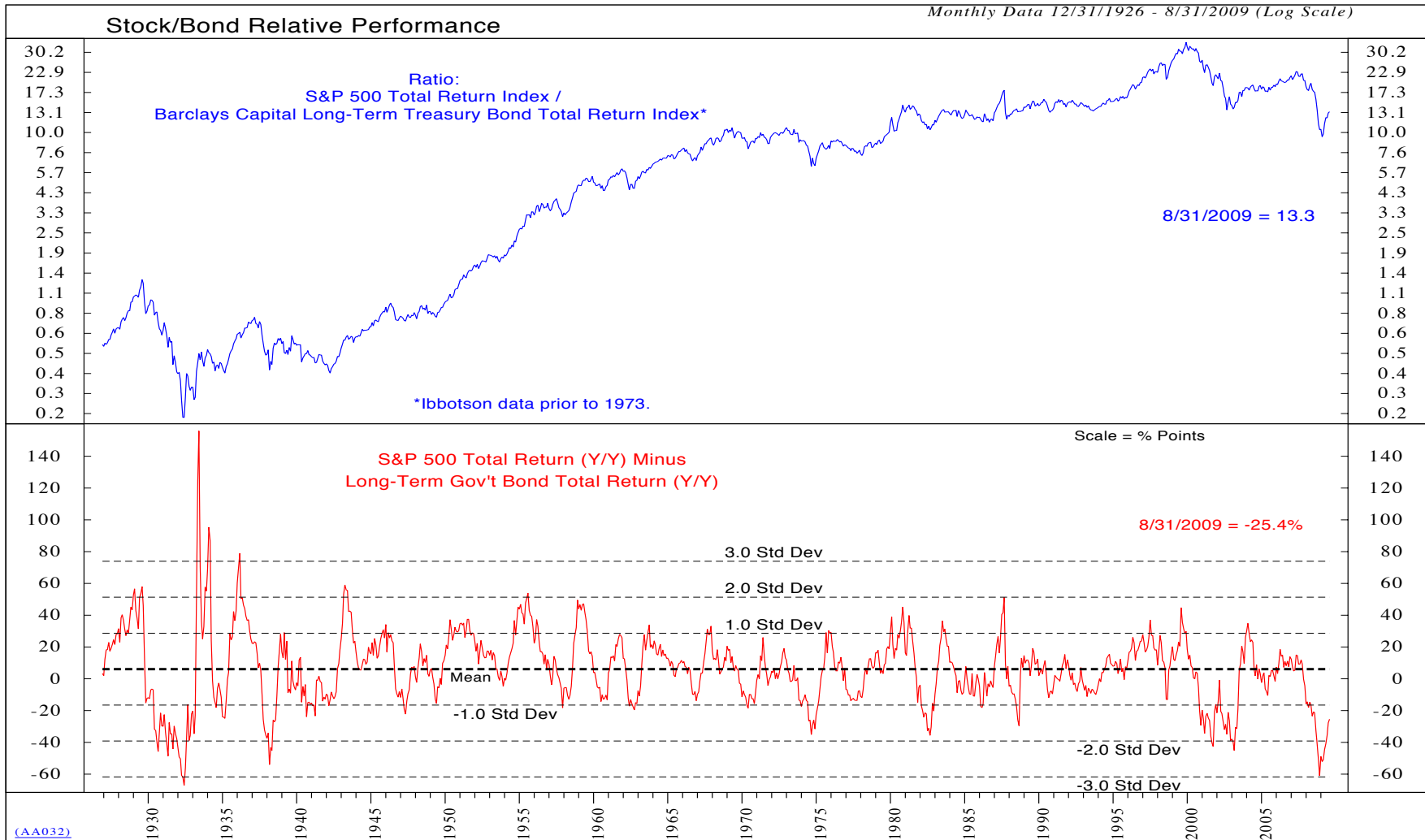
After deterioration in net worth, economy can't count on the consumer.



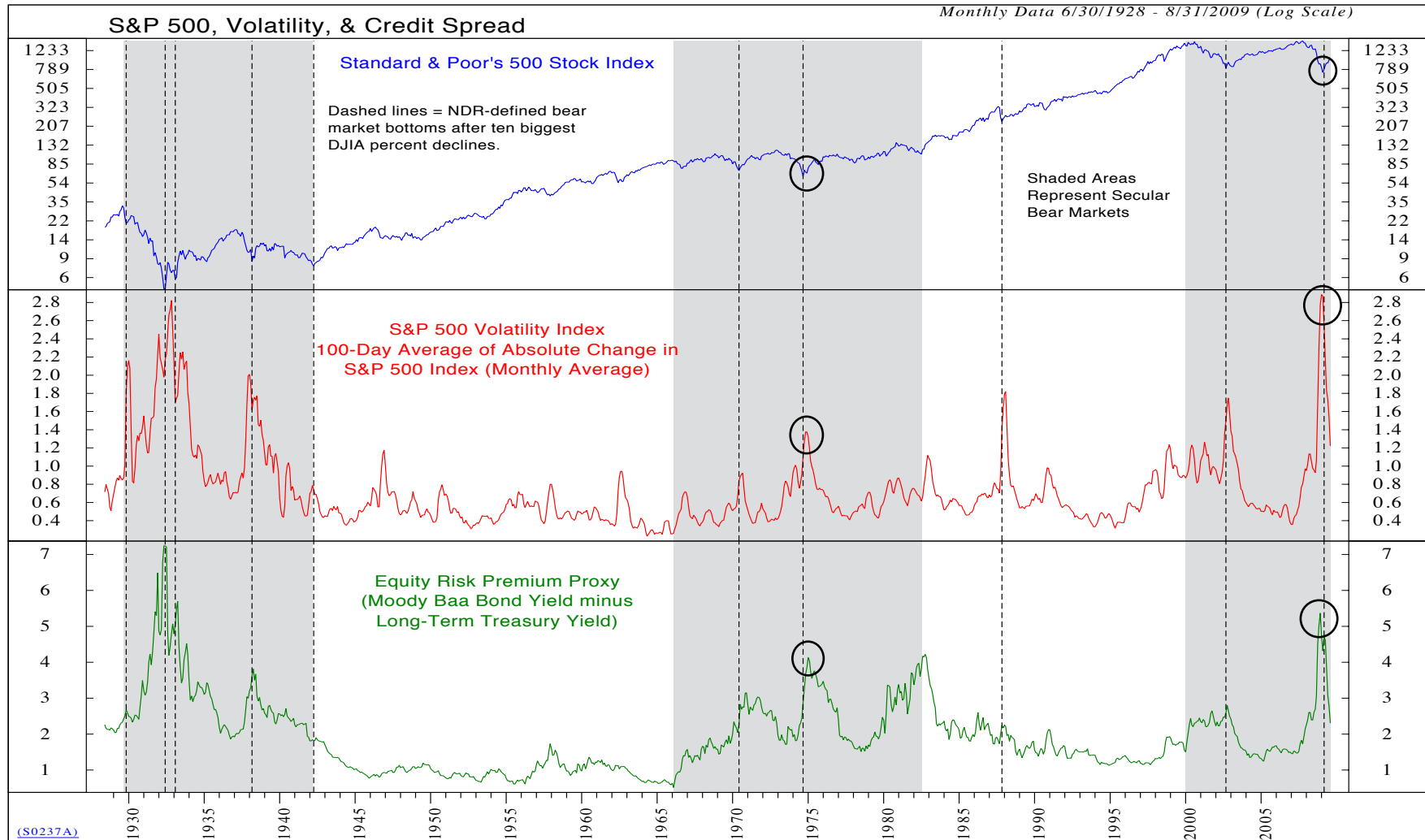
Stock market has followed the script for an economic trough. Trend has been especially similar to 1974-1975.



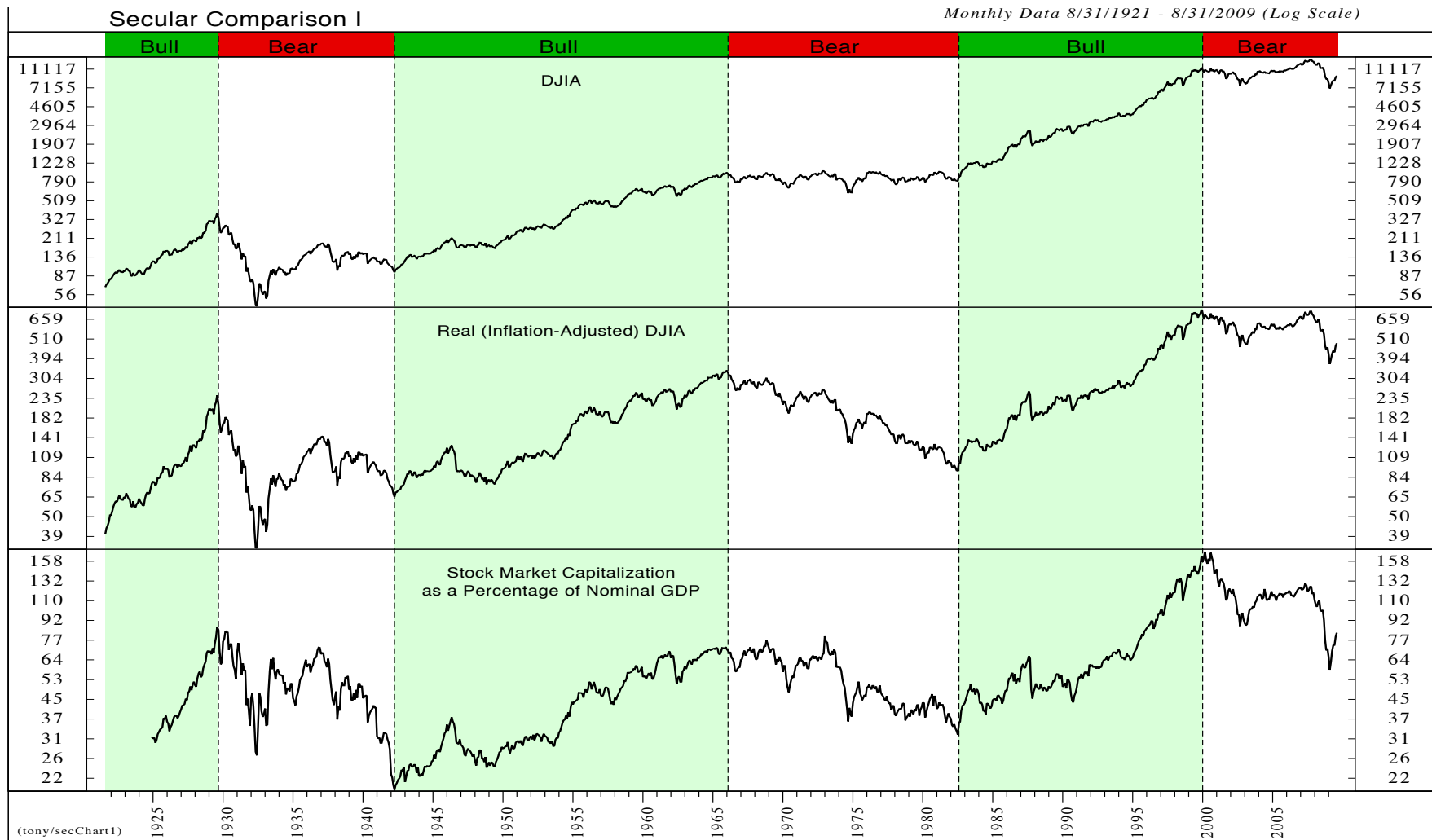
Stocks got extremely oversold versus bonds. Mean reversion continues.



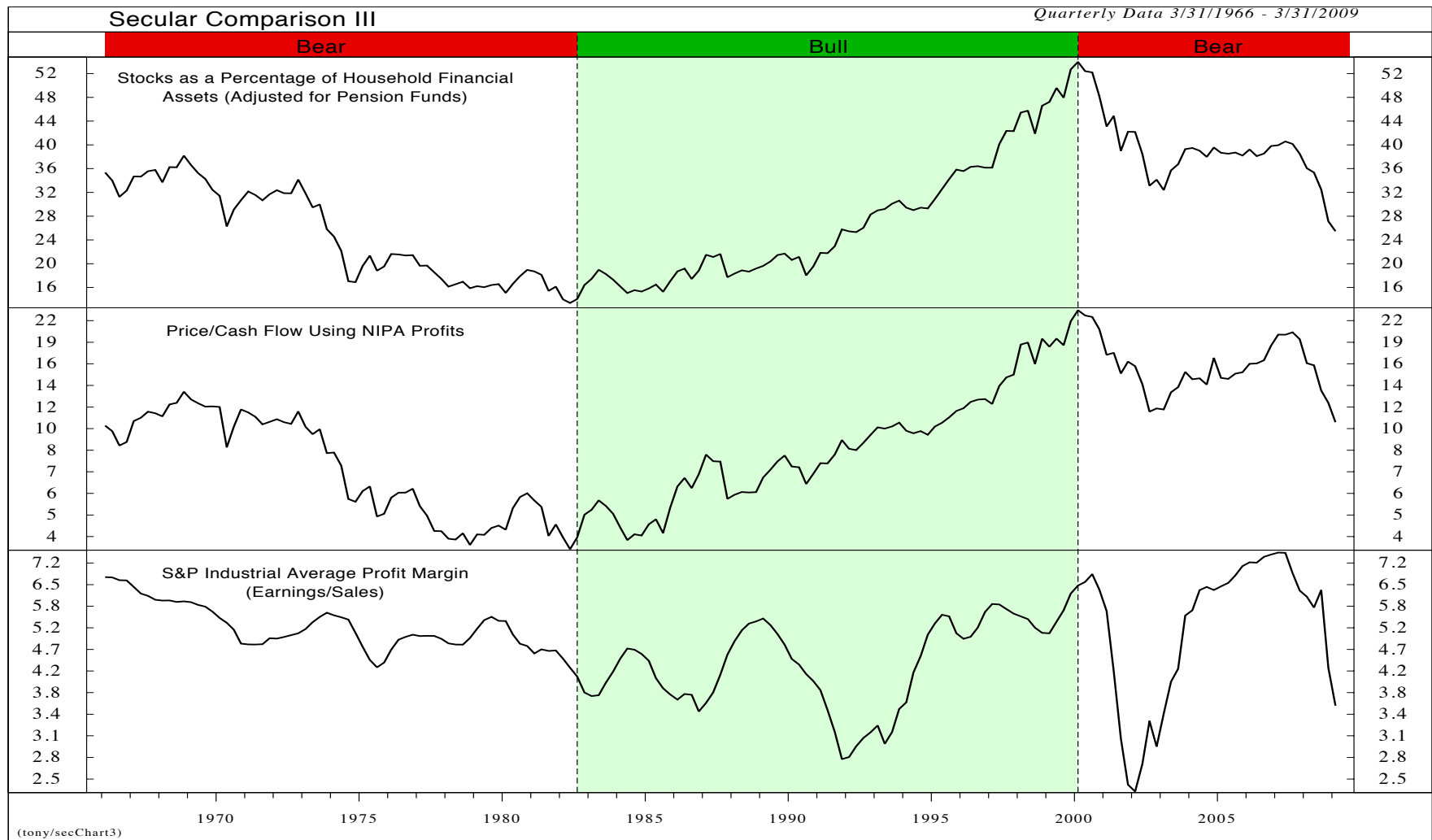
Extremes in volatility and credit spreads indicated peaks in economic and market fear. Further mean reversion to drive cyclical bull market...within long-term secular bear.



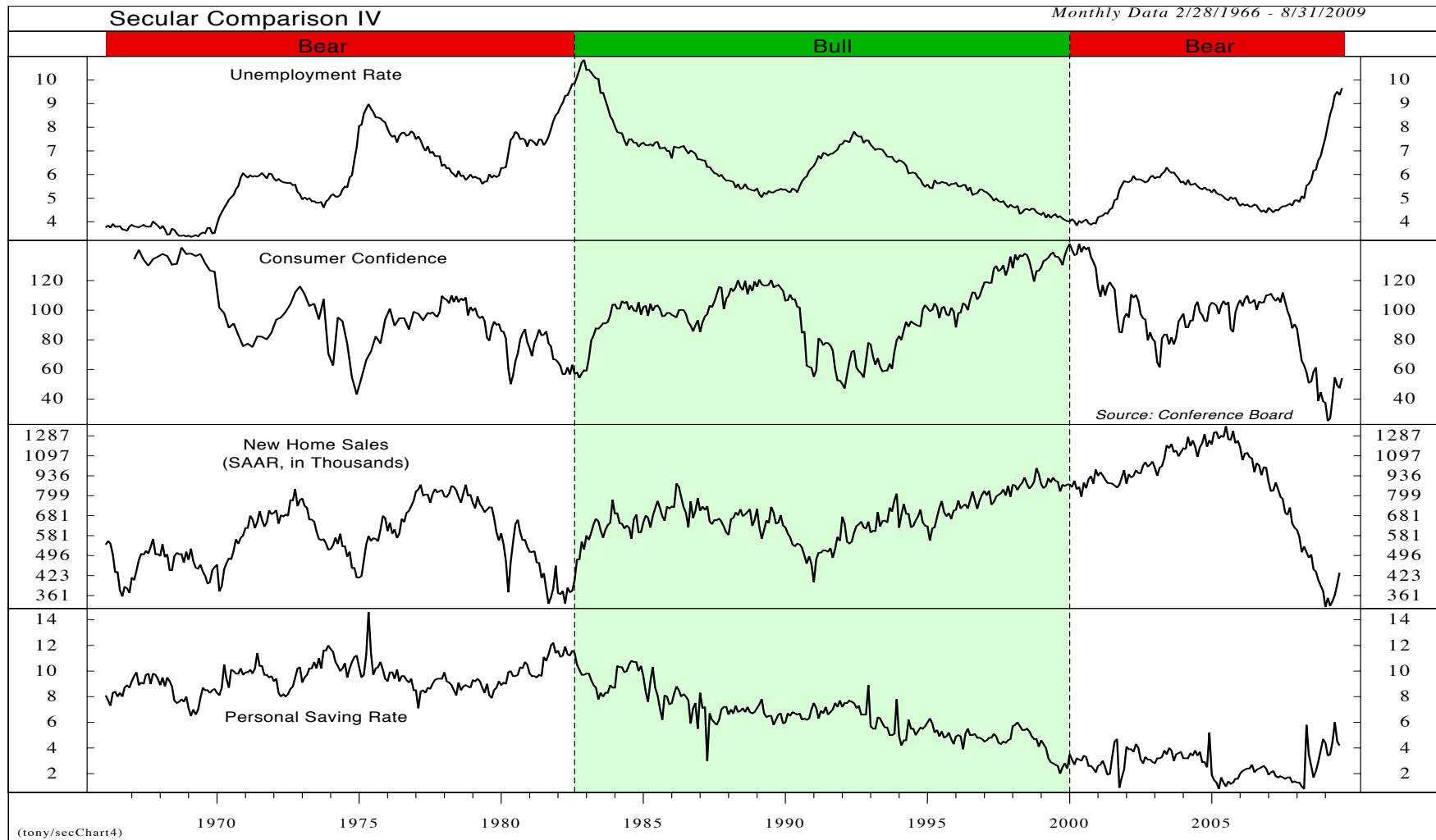
Equities not out of the woods from a secular standpoint.



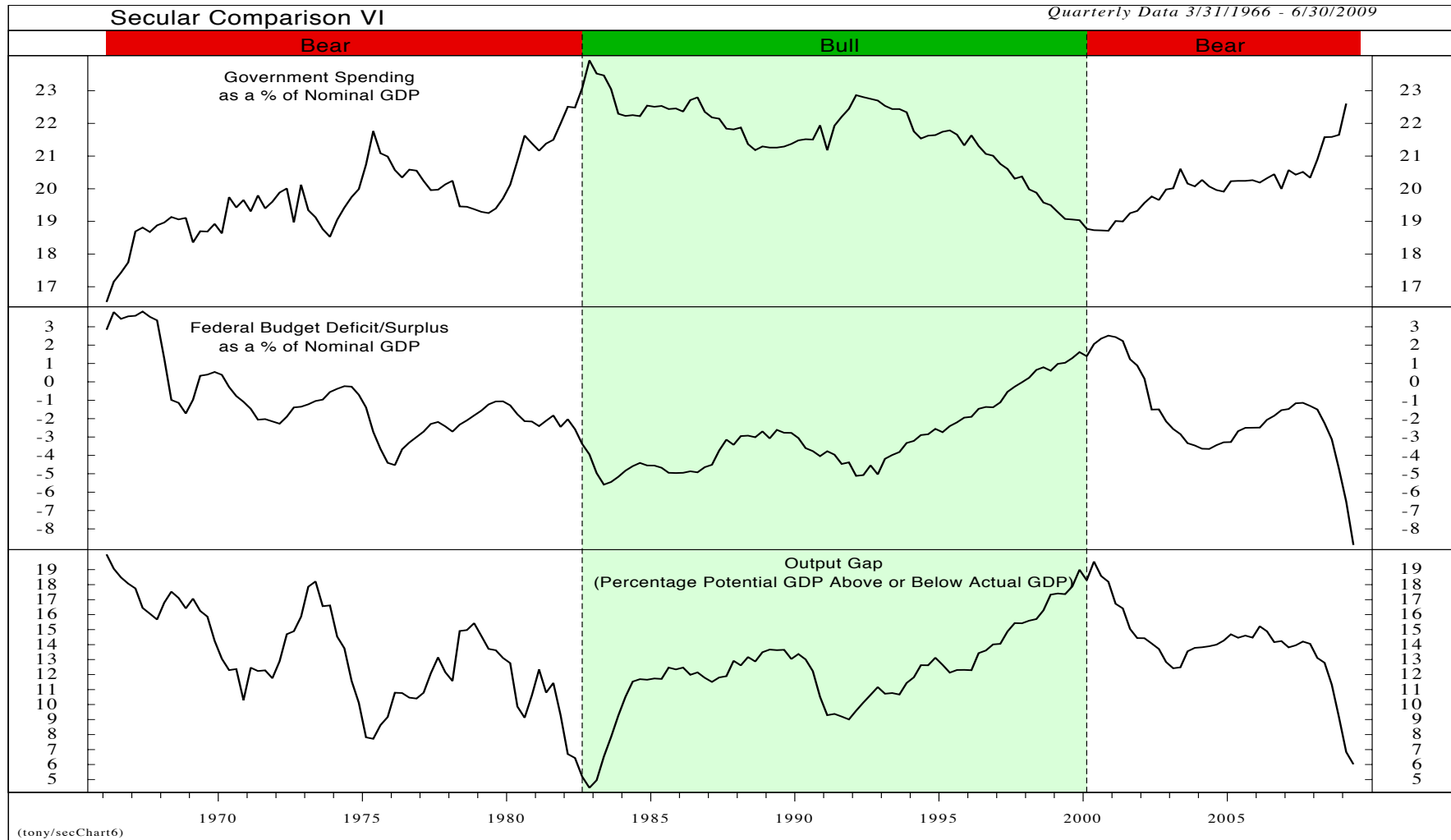
Secular bears include long-term downtrends in household commitments to equities, price-to-cash flow ratio, and profit margins.



Secular bears also include worsening trends in employment, confidence, and home sales, and increasing savings.



Other secular bear characteristics -- rising government spending, worsening deficits, and dropping output gap.



Within secular bears, cyclical bulls can be substantial. Outlook for 2009 called for potential to 1200-1300 on S&P 500, 12,000-13,000 on DJIA.

NDR-DEFINED SECULAR AND CYCLICAL BULL AND BEAR MARKETS						
Cyclical Bull Markets						
Start Date	DJIA	End Date	DJIA	% Gain	% GPA	Days
10/27/1923	85.76	09/03/1929	381.17	344.5	29.0	2138
11/13/1929	198.69	04/17/1930	294.07	48.0	151.8	155
07/08/1932	41.22	09/07/1932	79.93	93.9	5158.9	61
02/27/1933	50.16	02/05/1934	110.74	120.8	132.3	343
07/26/1934	85.51	03/10/1937	194.40	127.3	36.7	958
03/31/1938	98.95	11/12/1938	158.41	60.1	113.8	226
04/08/1939	121.44	09/12/1939	155.92	28.4	78.8	157
04/28/1942	92.92	05/29/1946	212.50	128.7	22.4	1492
05/17/1947	163.21	06/15/1948	193.16	18.4	16.8	395
06/13/1949	161.60	01/05/1953	293.79	81.8	18.2	1302
09/14/1953	255.49	04/06/1956	521.05	103.9	32.1	935
10/22/1957	419.79	01/05/1960	685.47	63.3	24.9	805
10/25/1960	566.05	12/13/1961	734.91	29.8	25.9	414
06/26/1962	535.76	02/09/1966	995.15	85.7	18.6	1324
10/07/1966	744.32	12/03/1968	985.21	32.4	13.9	788
05/26/1970	631.16	04/28/1971	950.82	50.6	55.9	337
11/23/1971	797.97	01/11/1973	1051.70	31.8	27.5	415
12/06/1974	577.60	09/21/1976	1014.79	75.7	36.9	655
02/28/1978	742.12	09/08/1978	907.74	22.3	46.7	192
04/21/1980	759.13	04/27/1981	1024.05	34.9	34.2	371
08/12/1982	776.92	11/29/1983	1287.20	65.7	47.5	474
07/24/1984	1086.57	08/25/1987	2722.42	150.6	34.6	1127
10/19/1987	1738.74	07/16/1990	2999.75	72.5	22.0	1001
10/11/1990	2365.10	07/17/1998	9337.97	294.8	19.3	2836
08/31/1998	7539.07	01/14/2000	11722.98	55.5	37.9	501
09/21/2001	8235.81	03/19/2002	10635.25	29.1	68.4	179
10/09/2002	7286.27	10/09/2007	14164.53	94.4	14.2	1826
Cyclical Bear Markets						
Start Date	DJIA	End Date	DJIA	% Gain	% GPA	Days
09/03/1929	381.17	11/13/1929	198.69	-47.9	-96.5	71
04/17/1930	294.07	07/08/1932	41.22	-86.0	-58.6	813
09/07/1932	79.93	02/27/1933	50.16	-37.2	-62.6	173
02/05/1934	110.74	07/26/1934	85.51	-22.8	-42.4	171
03/10/1937	194.40	03/31/1938	98.95	-49.1	-47.2	386
11/12/1938	158.41	04/08/1939	121.44	-23.3	-48.3	147
09/12/1939	155.92	04/28/1942	92.92	-40.4	-17.9	959
05/29/1946	212.50	05/17/1947	163.21	-23.2	-23.9	353
06/15/1948	193.16	06/13/1949	161.60	-16.3	-16.4	363
01/05/1953	293.79	09/14/1953	255.49	-13.0	-18.3	252
04/06/1956	521.05	10/22/1957	419.79	-19.4	-13.1	564
01/05/1960	685.47	10/25/1960	566.05	-17.4	-21.2	294
12/13/1961	734.91	06/26/1962	535.76	-27.1	-44.7	195
02/09/1966	995.15	10/07/1966	744.32	-25.2	-35.7	240
12/03/1968	985.21	05/26/1970	631.16	-35.9	-26.0	539
04/28/1971	950.82	11/23/1971	797.97	-16.1	-26.4	209
01/11/1973	1051.70	12/06/1974	577.60	-45.1	-27.0	694
09/21/1976	1014.79	02/28/1978	742.12	-26.9	-19.6	525
09/08/1978	907.74	04/21/1980	759.13	-16.4	-10.5	591
04/27/1981	1024.05	08/12/1982	776.92	-24.1	-19.2	472
11/29/1983	1287.20	07/24/1984	1086.57	-15.6	-22.9	238
08/25/1987	2722.42	10/19/1987	1738.74	-36.1	-94.9	55
07/16/1990	2999.75	10/11/1990	2365.10	-21.2	-63.1	87
07/17/1998	9337.97	08/31/1998	7539.07	-19.3	-82.4	45
01/14/2000	11722.98	09/21/2001	8235.81	-29.7	-18.9	616
03/19/2002	10635.25	10/09/2002	7286.27	-31.5	-49.2	204
10/09/2007	14164.53	*3/09/2009	6547.05	-53.8	-42.0	517

ALL CYCLICAL BULL MARKETS				
Statistic	# Cases	% Gain	% GPA	Days
Mean	34	85.6	194.9	751
Median	34	69.1	36.8	614
ALL CYCLICAL BEAR MARKETS				
Statistic	# Cases	% Gain	% GPA	Days
Mean	33	-30.8	-35.9	407
Median	33	-26.9	-27.0	363
CYCLICAL BULLS WITHIN SECULAR BULLS				
Statistic	# Cases	% Gain	% GPA	Days
Mean	16	109.5	31.7	1024
Median	16	77.2	27.4	870
CYCLICAL BEARS WITHIN SECULAR BULLS				
Statistic	# Cases	% Gain	% GPA	Days
Mean	12	-22.8	-37.7	295
Median	12	-19.4	-23.4	245
CYCLICAL BULLS WITHIN SECULAR BEARS				
Statistic	# Cases	% Gain	% GPA	Days
Mean	18	64.3	340.0	508
Median	18	55.4	41.9	371
CYCLICAL BEARS WITHIN SECULAR BEARS				
Statistic	# Cases	% Gain	% GPA	Days
Mean	21	-35.4	-34.9	470
Median	21	-31.5	-29.3	525

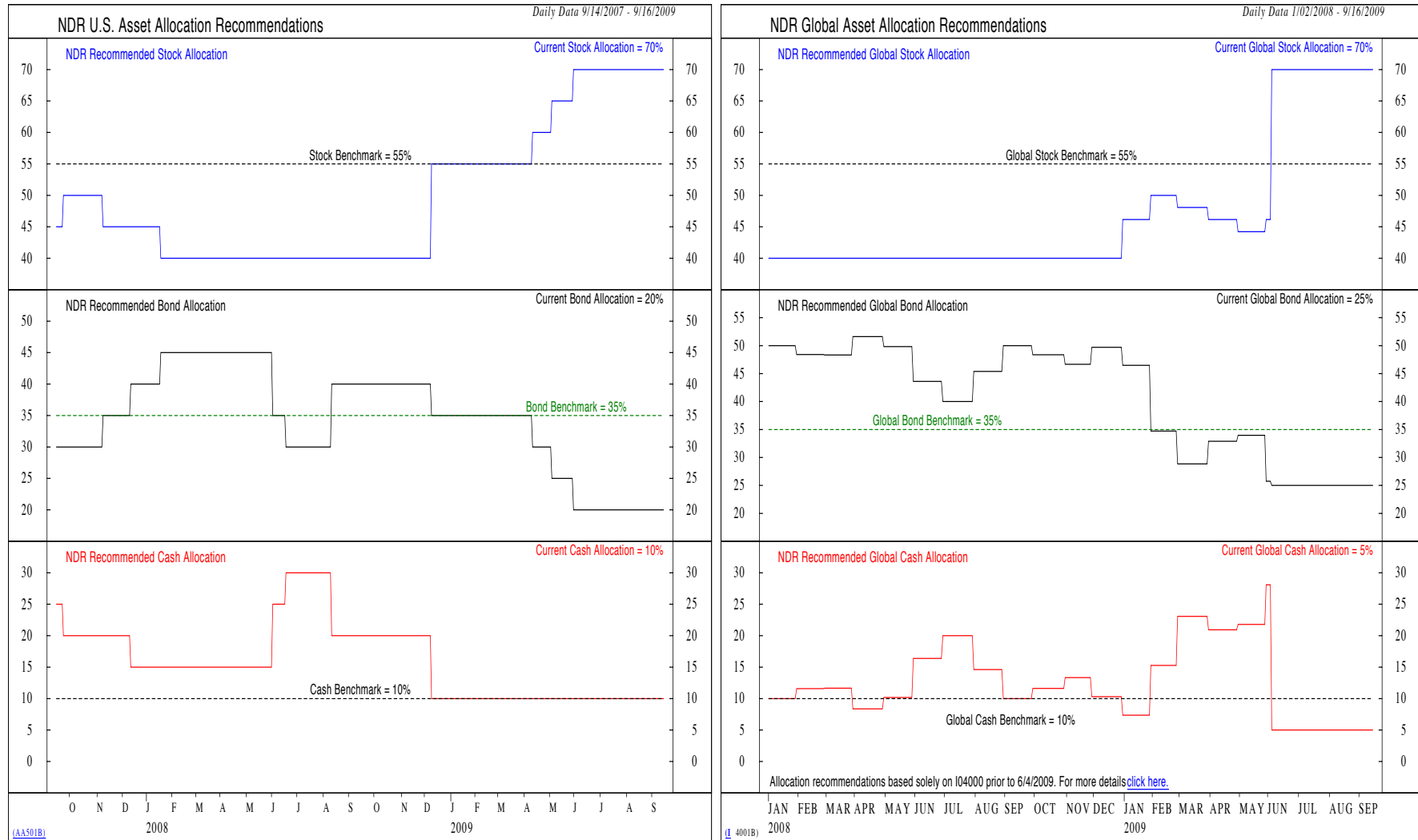
MARCH 2009 LOW VS. BOTTOMS OF 1938 AND 1974			
	3/31/1938 Bottom	12/06/74 Bottom	3/09/2009 Low
Preceding Cyclical Bear Market			
DJIA % Decline	-49%	-45%	-54%
Years	1.1	1.9	1.4
Concurrent Secular Bear Market			
Years From Start	9	9	9
Years to End	4	8	?
Concurrent Recession			
Months From Start	10	12	14
Months to End	3	4	3
Subsequent Advance to High			
Percent Gain	60%	51%	?
Months	7.5	7.5	?

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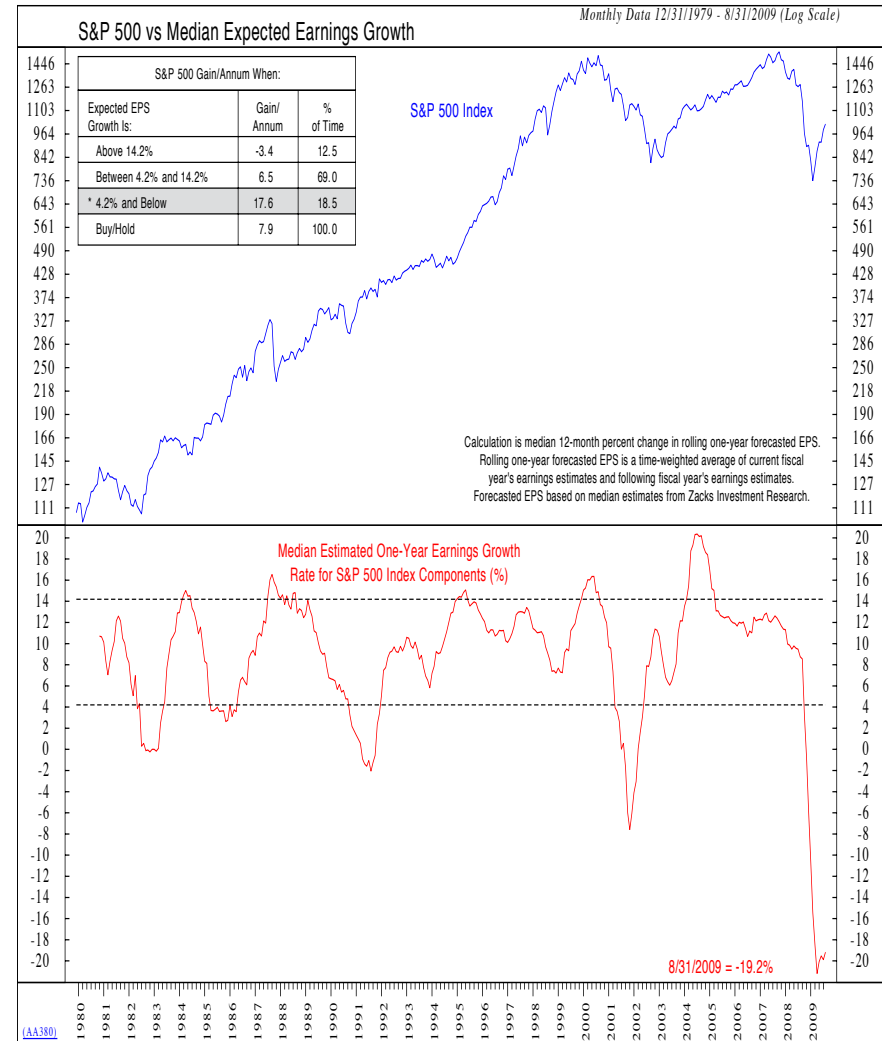
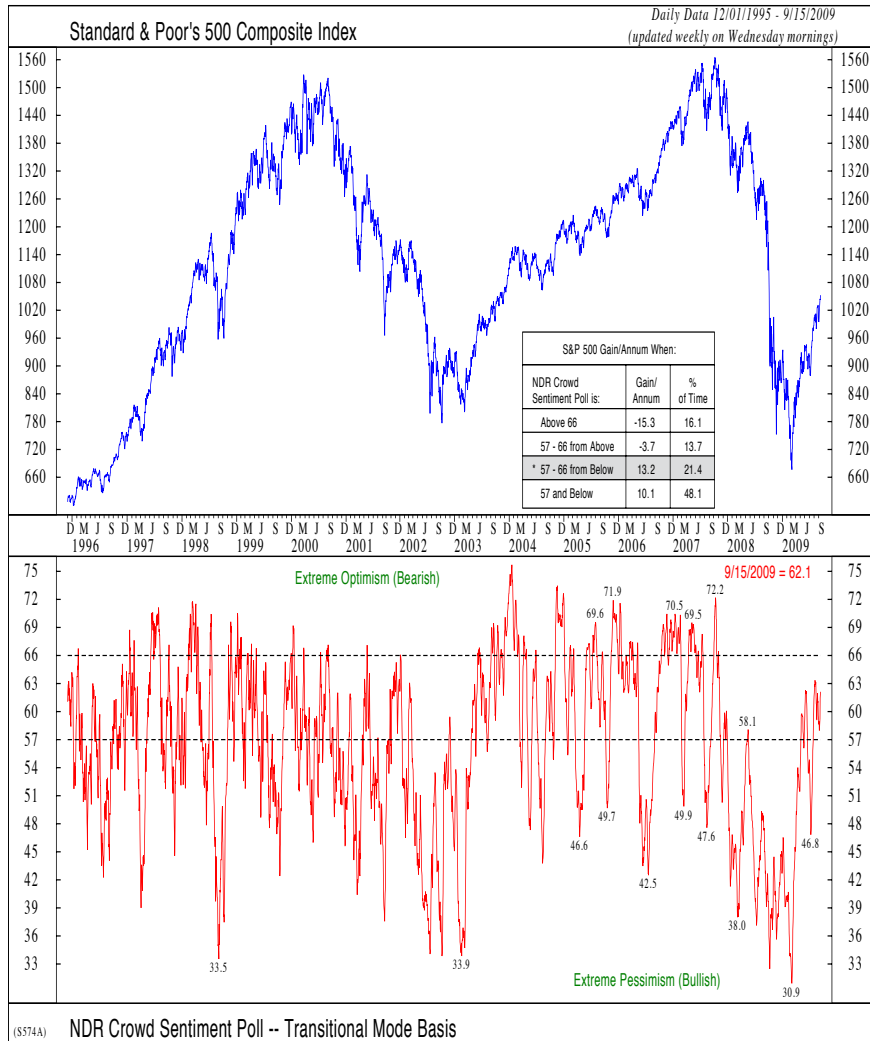
Market advance has entered moderation phase. If market continues to perform similar to '74-'76, slowdown will continue.

DJIA RETURN DURING STAGES OF CYCLICAL BULLS WITHIN SECULAR BEARS						
Bull Dates	-----% Gain-----					
	First Third	Second Third	Final Third	First Half	Second Half	Total Months
11/15/1907 - 11/19/1909	45.4	6.9	22.0	65.4	14.7	24.1
09/25/1911 - 09/30/1912	11.4	10.2	5.2	20.8	6.9	12.2
12/24/1914 - 11/21/1916	48.2	18.9	17.6	85.2	11.9	22.9
12/19/1917 - 11/03/1919	22.7	8.5	36.2	23.5	46.9	22.4
11/13/1929 - 04/17/1930	25.3	5.5	12.0	32.0	12.2	5.0
07/08/1932 - 09/07/1932	27.6	29.1	17.7	61.5	20.1	2.0
02/27/1933 - 02/05/1934	91.2	-0.3	15.9	98.0	11.5	11.3
07/26/1934 - 03/10/1937	35.5	31.1	28.0	72.3	32.0	31.4
03/31/1938 - 11/12/1938	14.0	21.5	15.6	43.8	11.4	7.4
04/08/1939 - 09/12/1939	13.5	5.0	7.8	13.1	13.5	5.2
10/07/1966 - 12/03/1968	16.8	-3.7	17.6	15.1	15.0	25.9
05/26/1970 - 04/28/1971	18.9	11.7	13.5	23.2	22.3	11.0
11/23/1971 - 01/11/1973	20.6	-0.3	9.6	18.4	11.3	13.7
12/06/1974 - 09/21/1976	50.8	10.0	5.9	45.2	21.0	21.5
02/28/1978 - 09/08/1978	11.7	-2.6	12.5	14.2	7.1	6.4
04/21/1980 - 04/27/1981	26.2	0.5	6.3	23.8	9.0	12.2
09/21/2001 - 03/19/2002	20.2	-1.3	8.8	22.3	5.6	5.9
10/09/2002 - 10/09/2007	42.3	3.7	31.8	43.6	35.4	60.0
Mean	30.1	8.6	15.8	40.1	17.1	16.7
Median	24.0	6.2	14.5	27.9	12.8	12.2
All Cyclical Bulls (34 cases):						
Mean	31.1	14.7	20.4	42.8	27.9	24.7
Median	25.7	12.3	13.3	43.7	15.3	20.2
<i>Cyclical and secular bull and bear market definitions and dates available in report T_202.</i>						
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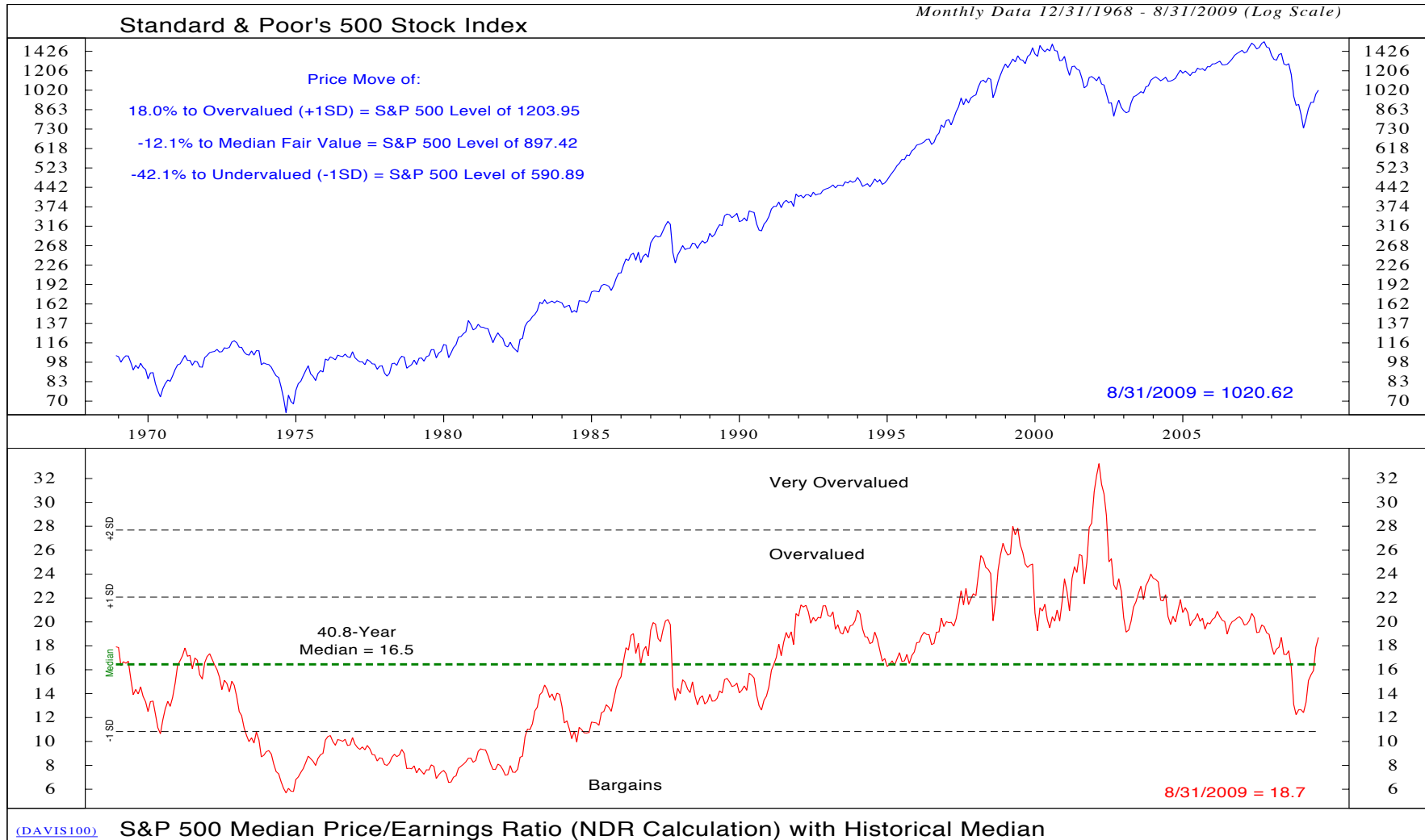
Our next move will be to cut back equity exposure. U.S. and global equity allocation raised to maximum overweight after March bottom.



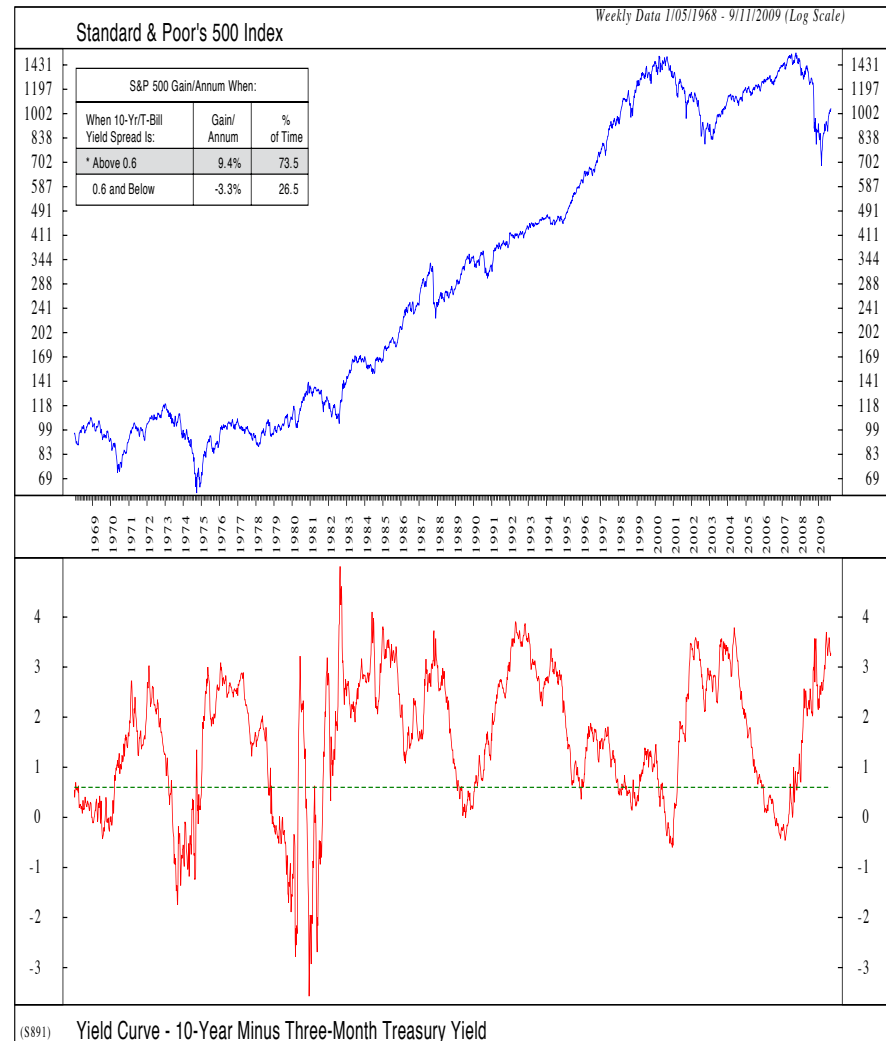
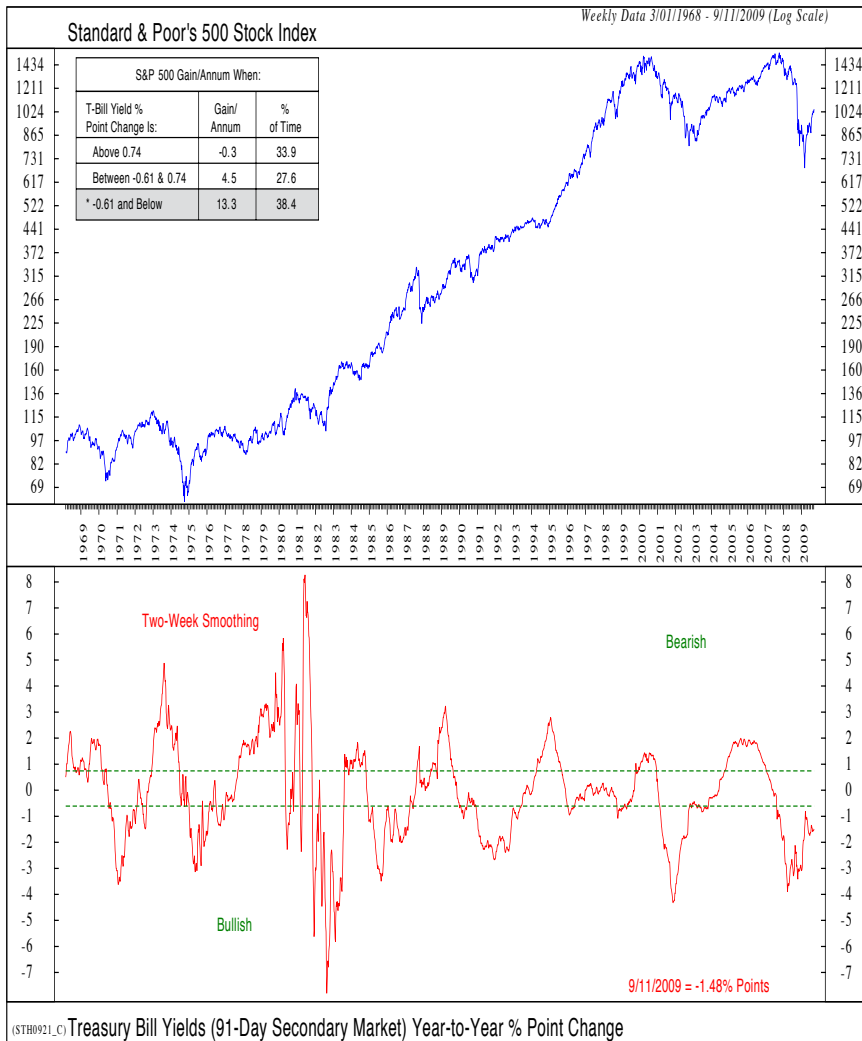
Watch for extreme optimism. Continuation of cyclical bull currently supported by sentiment indicators.
 Negative earnings news discounted.



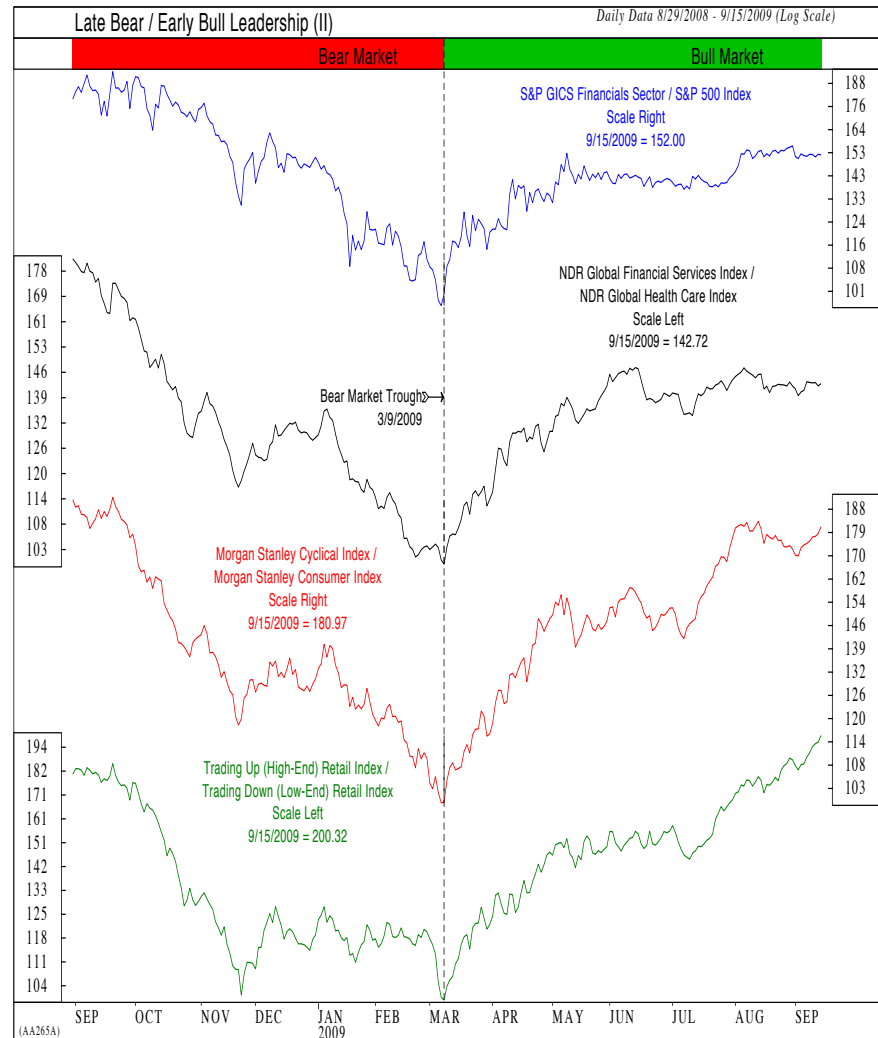
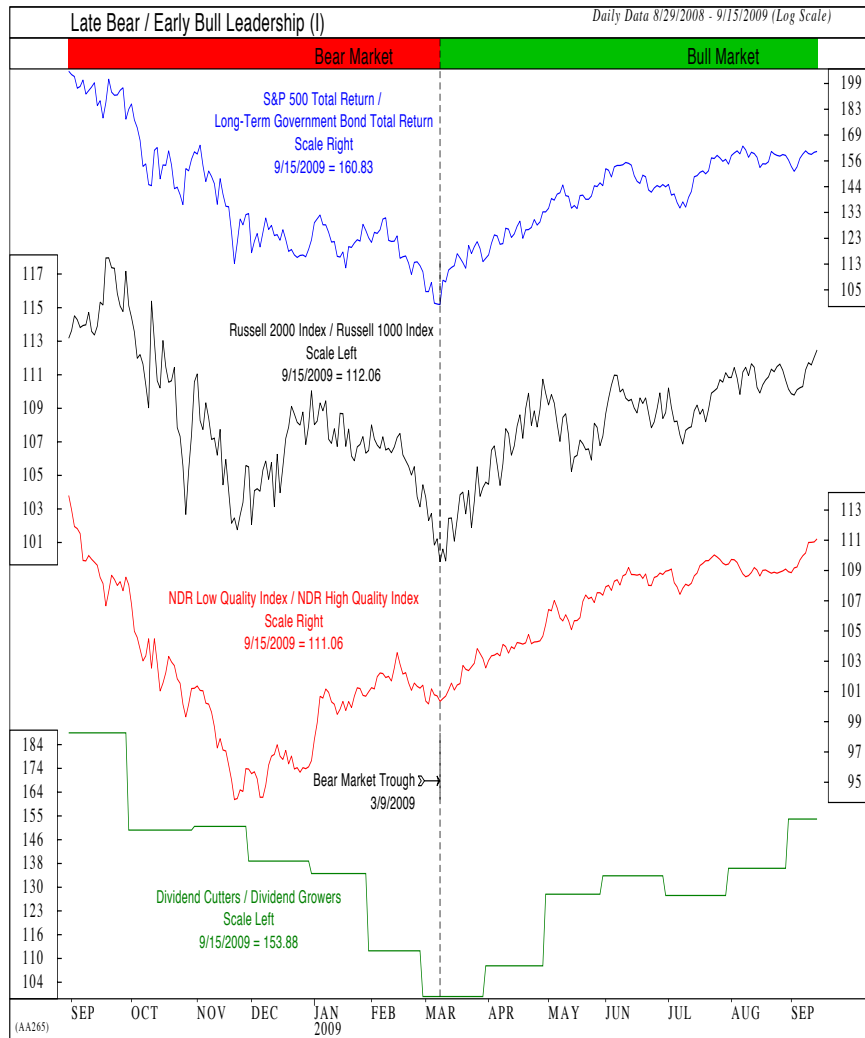
If the market reaches overvalued levels, stocks could be threatened again.



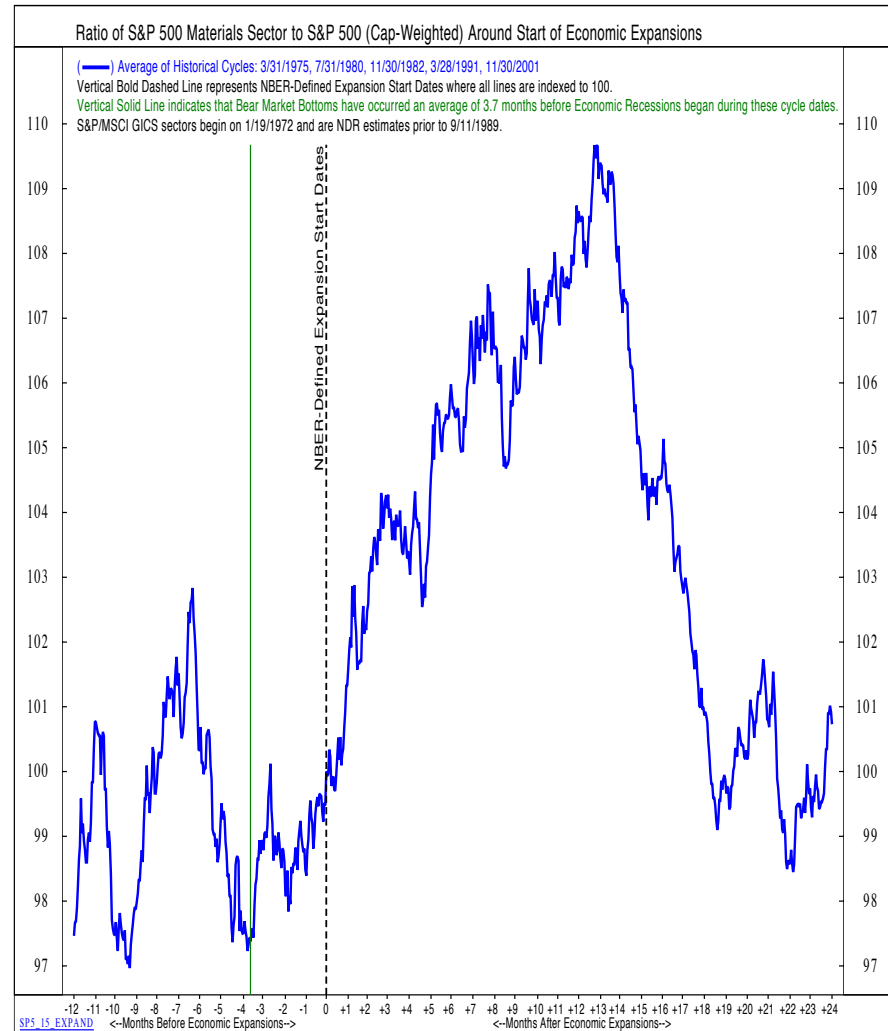
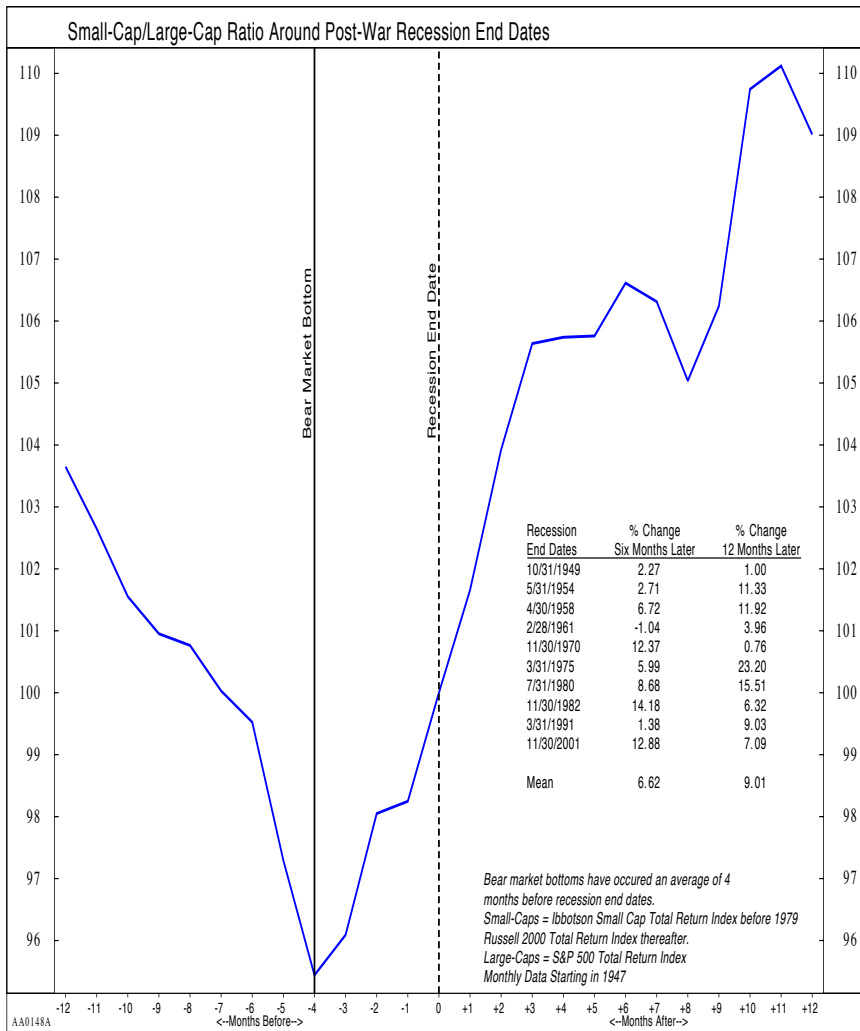
Stocks could also run into trouble if short rates follow long rates upward, flattening the yield curve.



Divergences among early-bull leaders would be warnings -- watch small-caps, financials, cyclicals, and others.



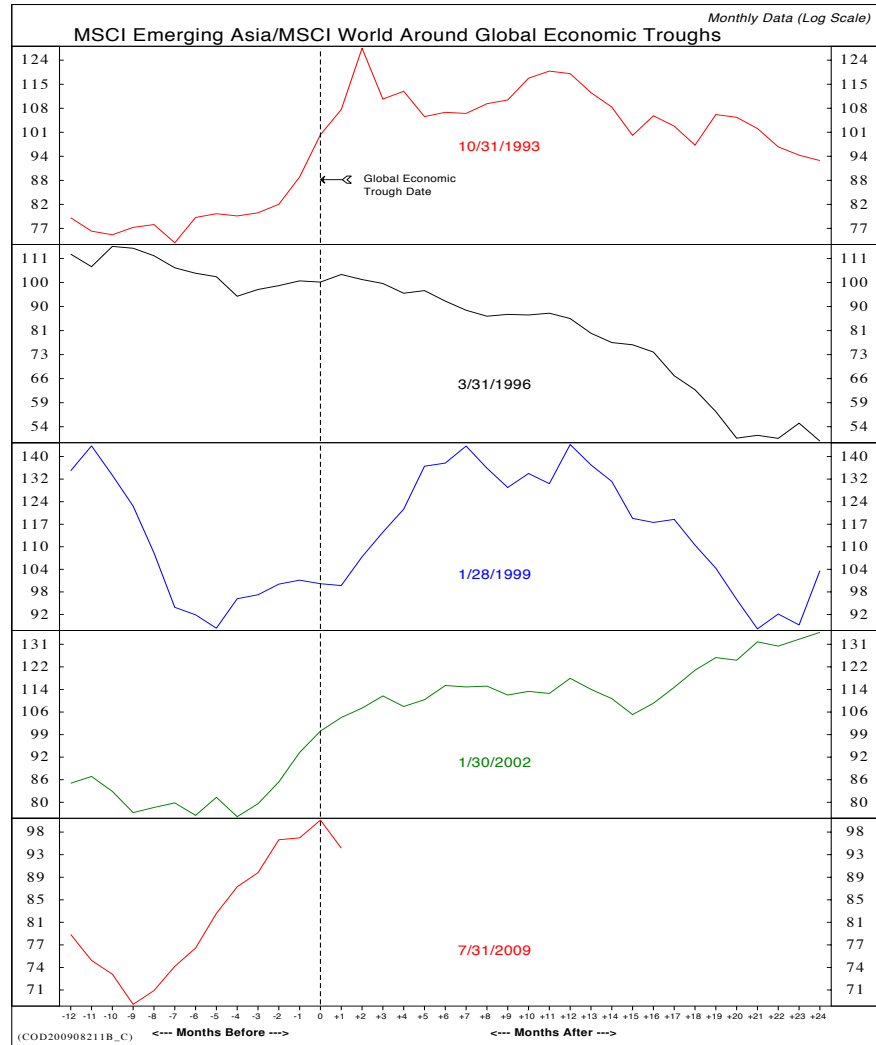
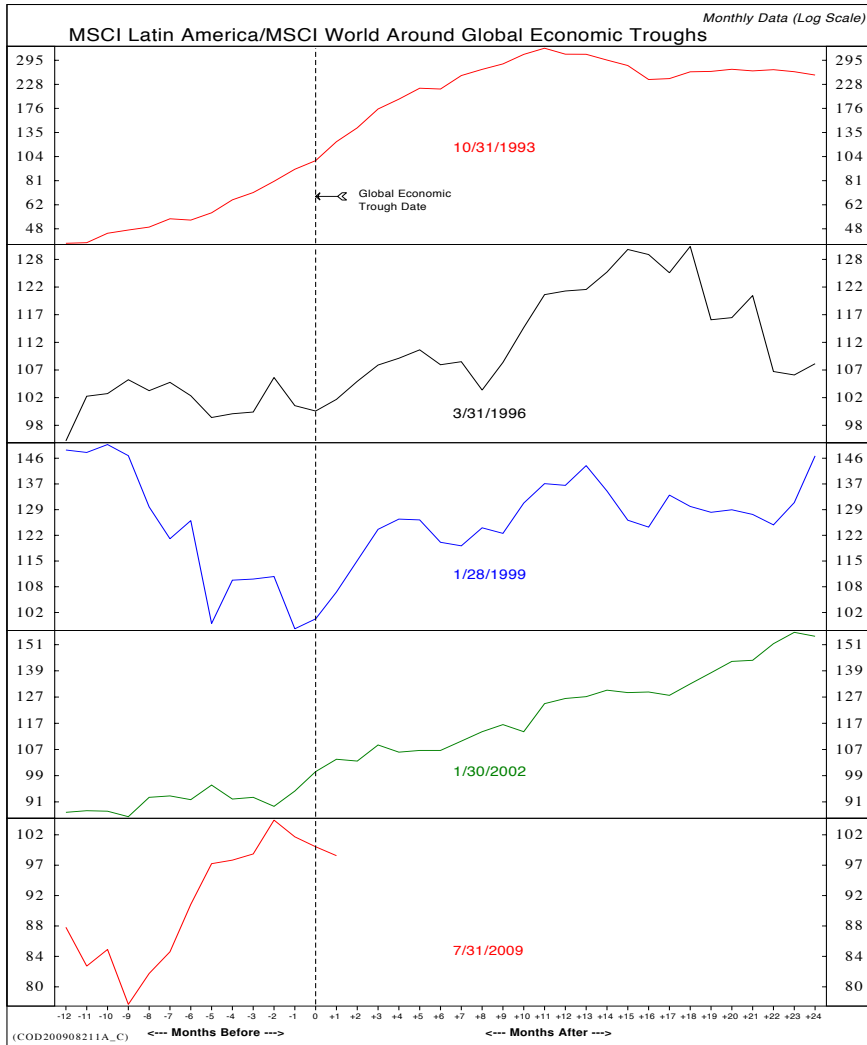
At this point of market recovery, post-recession tendencies driving performance. Small-caps and Materials normally lead after recessions.



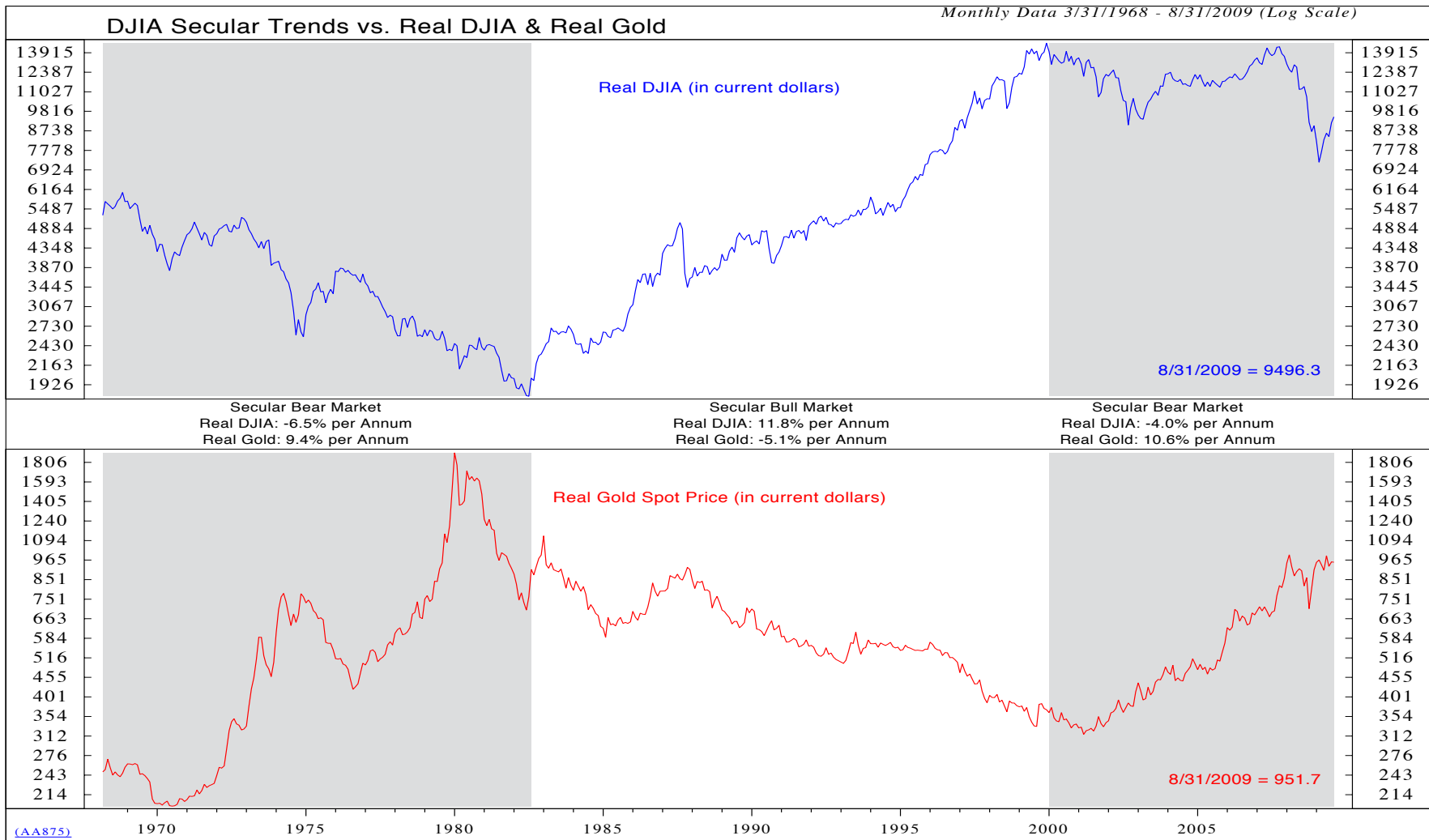
Energy and Consumer Discretionary also tend to outperform after recessions.

S&P 500 Sector Performance Six & Twelve Months After Recession Ends 1975 to 2002 (5 Cases)					
S&P 500 Sector	% Gain Six Months Later	Batting Average (%)	S&P 500 Sector	% Gain Twelve Months Later	Batting Average (%)
Energy	12.6	80	Materials	17.3	100
Materials	10.1	80	Consumer Discretionary	15.7	80
Consumer Discretionary	5.4	60	Financials	10.5	80
Industrials	4.2	40	Industrials	9.8	60
Financials	3.8	40	Energy	7.4	60
Utilities	1.9	40	Consumer Staples	7.5	40
Health Care	-0.5	40	Information Technology	3.5	40
Consumer Staples	2.4	20	Health Care	1.2	40
Information Technology	-1.6	20	Telecommunication Services	0.9	20
Telecommunication Services	-3.9	0	Utilities	0.8	0
S&P 500	4.3		S&P 500	8.4	
<i>Recession end dates used: 3/31/1975, 7/31/1980, 11/30/1982, 3/31/1991, 11/30/2001. Batting average = % cases outperforming S&P500 (cap-weighted). Sector performance based on S&P/MSCI GICS sectors. NDR estimates prior to 9/11/1989. Price only.</i>					
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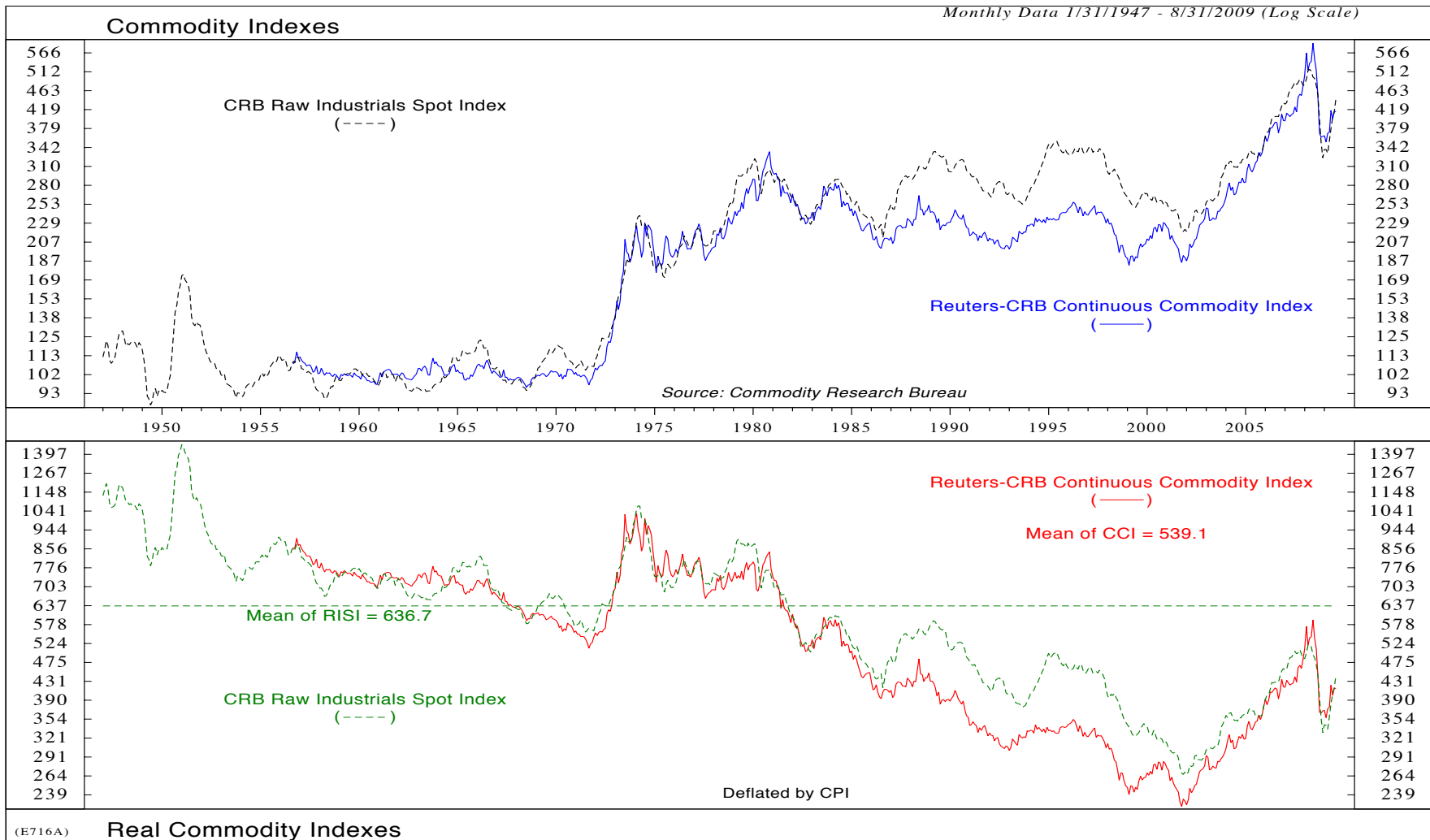
For global equity allocation, we have been favoring emerging markets, especially those in Latin America and Pacific region.



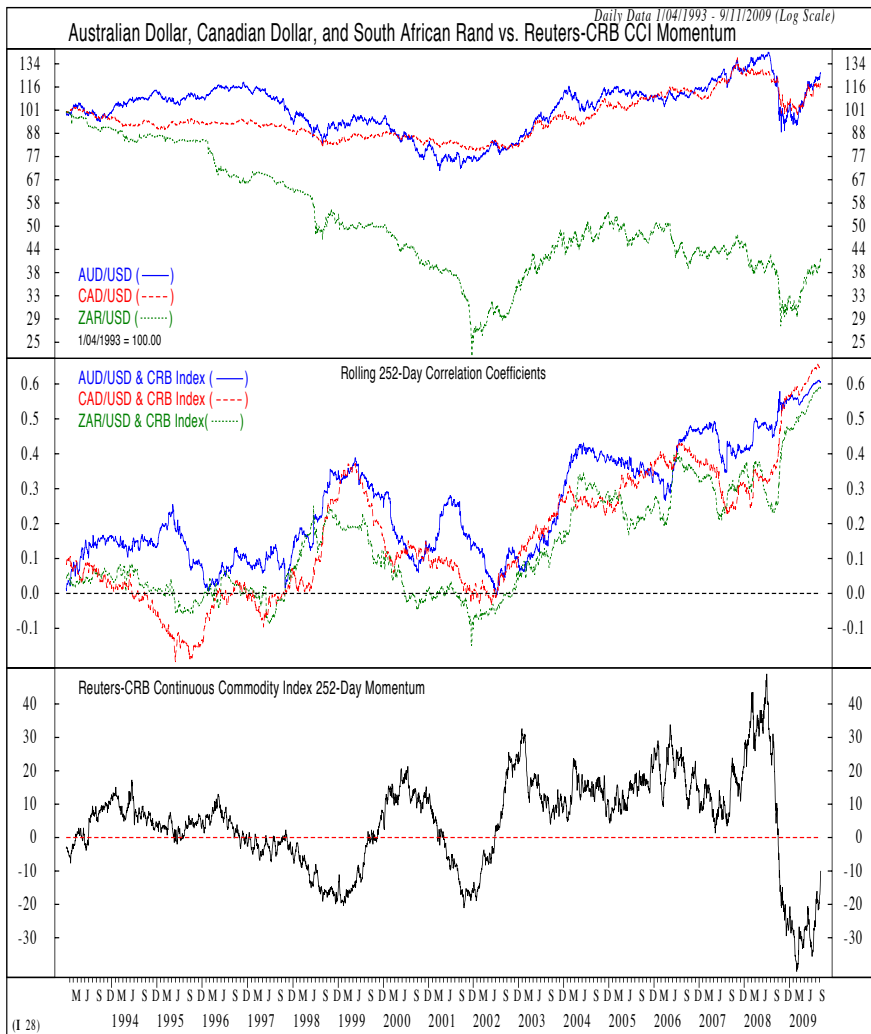
Gold also in secular bull, coinciding with secular bear in U.S. equities.



Inflation-adjusted perspective shows commodities below long-term norm, and mean reverting.



Commodity-based currencies have been strongest, consistent with gold and commodity strength. U.S. Dollar Index remains on the defensive.



BOTTOM LINE

- Continued mean reversion from historical extremes:
 - » Economy recovering from recession
 - » Stocks rallying, outperforming bonds
 - » Credit spreads narrowing
 - » Volatility receding
 - » Emerging markets outperforming
 - » Small-Caps and Materials still leading
 - » Gold and commodities trending higher

- What to watch for in 2010:
 - » Rising inflation expectations
 - » Rising short-term interest rates
 - » Stock market divergences
 - » Rising risk of another cyclical bear next year

- Secular themes intact:
 - » Bear in U.S. stocks
 - » Bulls in gold, commodities, emerging markets



BIOGRAPHICAL SKETCH

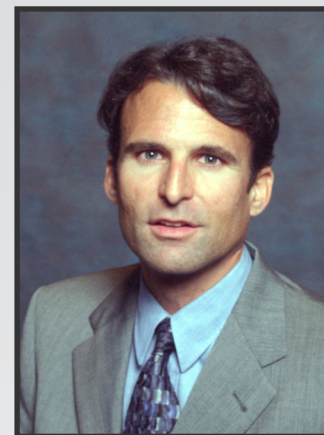
Timothy W. Hayes, CMT, is NDR's Chief Investment Strategist and Managing Director, Global Asset Allocation. Tim joined the firm in 1986 and currently heads up the firm's global and U.S. asset allocation services. He serves as Research Council coordinator and oversees NDR's monthly **Investment Strategy**, covering global strategy and allocation.

Tim writes the **Stock Market Focus**, which features top-down stock market perspective, quantitatively based analyses, and stlye allocation recommendations. Tim also writes **Global Focus**, which focuses on the most significant global themes in addressing global asset allocation and the outlook for the world's various stock markets and global sectors. He also writes complementary **Chart of the Day** publications.

Tim is featured regularly on CNBC and Bloomberg TV, and his market commentary is often quoted in **The Wall Street Journal** and other financial media in the U.S. and globally.

He has written a book, **The Research-Driven Investor**, published in November 2000. He has contributed to several other books, and his research articles have appeared in the **Journal of Technical Analysis**, **Technical Analysis of Stocks and Commodities**, and other publications.

Tim received his Bachelor of Arts degree from Kenyon College and is a Chartered Market Technician. In 2008, the Investorside Research Association awarded Tim its Research Excellence Award for "Exiting Equities in '07." In 1996, Tim won the Charles H. Dow Award for groundbreaking research in technical analysis. Sponsored by Dow Jones Telerate, the Market Technicians Association, and **Barron's**, the award recognizes an outstanding original work that best expounds on the principles of technical analysis.



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