



Chronicle of the Quarter

By Bob Veres

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I wrote this as part of my Client Articles service for advisors to send to their clients; as you can see, it's a daily blog about what it felt like to watch the market during the past fiscal quarter. It communicates several points: perhaps most importantly, that what seems clear in hindsight (the markets gave back their first quarter gains) is not at all clear as it is experienced, and the idea of taking action seems obvious in retrospect, until you break it down as it happens. Only slightly less important: you really don't learn anything by watching the tape every day, so why do it?

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Anybody looking at the zig-zag course of the stock market can see that the more closely you look, the more you miss what is actually happening. Daily price movements jump around in what appears to be a totally random pattern; up one day, down the next – and it's only when you step back and look at the year or multiple years can you see whether actual money is being made or lost.

But even knowing these things, it's hard not to look at the daily drama of price movements, and listen to the analysts explain how events in Turkey or Sri Lanka are causing investors to feel bullish or bearish. This quarter, I decided to immerse myself in the white noise and see if there are any conclusions one might plausibly draw from the bouncings of the tape. In retrospect, it was a boring three months that managed to give back a little more than the gains of the first quarter. But seem from the perspective of daily price movements, the past three months was a wild ride, full of drama and excitement.

Beginning: Things are looking good; yesterday, the Dow reached its highest point in a year and a half, and last year's 4th quarter showed a 5.6% jump in U.S. GDP. The S&P 500 is up around 1,169.43, following almost a two month rally from rally from 1,056 in early February. Those January Jitters seem to be behind us now; I'm optimistic that the next three months are going to add something to my net worth.

April 1-15: I was right to be optimistic; the Dow is up over 11,000, on (finally!) some good news on the jobs front and encouraging news about housing. And Apple is launching this thing called the iPad, which commentators say is juicing the markets, for some reason... Something called the regional manufacturing index was up 20.2 in April, which sounds bullish. Still plenty of time between now and midnight to start filling out my tax forms...

April 16-30: Maybe I spoke too soon; the rest of the month has been a bumpy ride to nowhere, down Friday, up Tuesday, flat Wednesday and Thursday, up Friday and



Monday, down the rest of the week. Consumer sentiment is down. Darn consumers! Also worries that Greece may default on its debt. Darn Greeks! The government is looking into a criminal investigation of Goldman Sachs, which is also apparently spooking the market. Darn government! Yet despite all those annoyingly gloomy consumers and spendthrift Greeks, the markets are still about where they were on the 15th. Maybe the bad news is finally over.

May 1-7: What the hell was that!? Omigod... Omigod... The S&P 500 fell, like, 9% in an HOUR!?! That's the kind of performance you'd expect from something Goldman sold its customers and then shorted for its own profits. Is Goldman behind this somehow? Why isn't the government investigating those bastards? Okay, let's see, calm down. How bad can it get? If I project that hourly return out over the eight years until retirement – Omigod! The portfolio drops below zero sometime late tomorrow afternoon, and the next day I have a negative compounding net worth in, like, total free-fall, and that's 300 trading days a year times eight hourly scary free-fall drops times eight years – oh... Remember to keep breathing... At this rate, I'm going to be something like a hundred billion dollars in the red by the time I retire. And so will everybody else! I wonder who we'll have to write that check to...?

May 10-May 12: What a silly goose I was! Selling my entire portfolio might not have been the best decision of my life, now that the markets seem to have stabilized. The very day I jumped to the sidelines, I watched the biggest one-day gain in more than a year, up 404 points on the Dow, followed by a small decline and then another nice bounce. Sadder but wiser, I get my money back in the market before it can go up too much more without me.

May 13-May 20: Did I say go up? The Dow is back down under 11,000, apparently because the Euro is falling compared with the dollar. I thought a strong dollar was a GOOD thing, but apparently not... Also Germany banned short selling, which spooked American investors. Why? Now the markets are below where they were at the worst of that flash crash thing. Darn Germans! They're just killing my net worth.

May 21-June 7: What the hell? Friday: Market up, financials are healthy. Did the government stop investigating Goldman? Monday: market down because we're all apparently still worried about Greece. I'M not worried about Greece; why is everybody else? I'm just thinking out loud here, but maybe Greece could sell that Acropolis thing to the Germans or Chinese, and if that doesn't pay off the European banks, there's always Rhodes or Crete or something. Tuesday: a lot of see-sawing, but down again. Wednesday, down again on improving economic news, the Dow is down below 10,000 and am I the only investor in the world who thinks that improving economic news is supposed to be GOOD for stocks? The analysts are saying that it didn't improve ENOUGH, or as much as expected, or something. Thursday, back up, which means maybe people realized good economic news is good after all. Also China came to the rescue and said it wasn't going to dump its European bonds on the market. Apparently that Acropolis deal isn't panning out... Friday: another down day, this time with something about Spain



defaulting on ITS debts. Whose next? Portugal? Italy? Monday: the Dow is down 1.1% because, get this, BP's "top kill" thing didn't stop the oil flowing into the Gulf of Mexico. Does that affect IBM's business prospects? Or General Electric's? Is Alcoa or Merck less profitable or viable because "top kill" didn't save the shrimp fishermen? Tuesday: up slightly. Wednesday: the Dow is below 10,000. Now we're worried about HUNGARY'S economy. Thursday: A tiny bit of sunshine. Friday: bad. Monday: Awful. Dow at 9,800. Time to get back out?

June 8-June 18: I guess I might have been hyperventilating a little bit the last two weeks; thank goodness the market has finally started that rally that I was expecting way back at the start of April. Has it really been that long? Time moves VERY slowly when you watch the tape every day, but now, at least, I can rest easy. Last Thursday, a bunch of economic reports came in, telling us that the economy is growing – and I'm glad to say that for once the market agreed with me that this was GOOD news. Tuesday was up, Wednesday was down apparently because Ben Bernanke waxed optimistic about the economy (and why is that a bad thing?), Thursday was up nicely and Friday saw an uptick in consumer sentiment. If anybody ever asks me about MY sentiment, I'm going to tell them I'm optimistic as hell even if I'm in a suicidal depression; that number seems to be inexplicably crucial to the health of my portfolio. Friday was down because of Greece, and Monday saw nice gains, including shares of BP. Go figure! Wednesday: flat, thanks to something about Spain not needing a bailout. Thursday: up, thanks to Spain selling some kind of bond issue without incident. Friday: up slightly. For the week: up 2.2%. Why can't every week be like that?

June 19-June 30: Maybe I should just shoot myself. Monday wasn't so bad, but then came down days on Tuesday, Wednesday, Thursday and Friday, as the Federal Reserve downgraded its economic outlook because of all that stuff going on in Europe. Darn Europe! Darn Federal Reserve! Monday was down too, and on Tuesday, the markets hit their lowest level for the year. The Dow is under 10,000, about where it was last November. Why? Get this: China's economic growth is slowing down. Am I the only person who thinks that less economic growth in China could mean more for US? That is how it works, isn't it? Omigod, last day of the quarter; I can't look, except that I have CNBC on all day, and it's just like the month; up and down and finally, in the last couple of hours, down 1.01%.

What an awful week! But it seems like every time I give up hope, the markets bounce back, like a sucker punch in reverse. Maybe I should be giving up hope sooner! Like, right now I'm thinking maybe I should shoot myself and end all this misery. Right after I answer the phone. Hello? Yes. Yes. I'm too busy right now to answer any polling quest – what? What did you say? My sentiment? I'm giddy! Ecstatic! Overjoyed! Yes, I know it's hard to hear the excitement in the tone of my voice, but trust me: optimism is flowing out of every pore in my body! On a scale of 1-100? At least a 104! No, make that 110. Whatever it takes to offset those depressed people you usually call. Yes. You're welcome. Call back any time. I'll be here tomorrow. Yes. Okay. Goodbye.



I can hardly wait to see how THAT plays out in the markets tomorrow morning.

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