For Comparison's Sake: Two Years into a Market Recovery
by Tim Courtney
March 2011

Have you ever been in a restaurant – a really nice restaurant – poring over the menu, but you're still unable to decide what to order? Maybe the menu had choices such as filet mignon, lobster, lamb, crab, pheasant, sea bass, etc. If they all sounded equally good to you, how did you decide? One thing that might help make the choice a little easier is looking at the prices. If all of the dishes were $60 except one, which was only $20, many people would end up choosing the $20 dish. In many ways, deciding which dish to choose is a lot like choosing how to invest.

Many investments have appealing characteristics: Stocks provide ownership in some of the world's best ideas; bonds offer a sure and stable interest rate; and real estate is one thing they're not making any more of. Each of these investments might sound attractive, but one thing we should look at to help us make a choice is the price of each investment – and the comparison of those prices to each other.

Over the years we have reviewed hundreds of studies and reports on markets that boil down to one fundamental truth: The less you pay for an asset, the better off you are. This is true whether you are looking at buying a car, a house or a stock. This is also true when you buy assets that appear relatively cheap compared to others.

For example, 20 years ago in 1991 you could buy a share of the stock market for $14 for every $1 you made in profits (so that at the end of the year you have your share worth $14 plus the $1 in profits). Or you could buy a 10-Year Treasury bond for $12.50 for every $1 in interest; or you could buy Real Estate Investment Trusts for $12.50 for every $1 in rent. At those prices, they all look pretty attractive. However, today we see the prices of some investments have changed substantially. While stocks are priced at roughly the same $14 for $1 in profits, the 10-Year Treasury bond now costs $28.50 for $1 in interest and Real Estate Investment Trusts cost $29.50 for $1 in rent. At these prices it still might make sense to hold some bonds and some real estate, but for many investors the prices of stocks should appear attractive enough, even after the current recovery, to make them a core holding in portfolios.

Recovery

Stocks are now two years into a market recovery that began in early March, 2009. Since then, large U.S. companies are up roughly 100 percent while the smallest, cheapest companies are up close to 180 percent. Numbers like these have been common following large market declines. However, it is important to note these returns didn't come easily and they weren't spread out universally.

For an investor to get these returns they had to be invested during one of the most unsettling times in market history. They had to remain invested while many others were fleeing – and those that left were not around to benefit from the recovery. In late 2008, during our town hall meetings and client reviews, we talked about the market volatility being a time when investors earned their returns. Investors weren't actually paid their returns until late 2009, 2010 and 2011, but they had earned them years earlier.

In this recovery there will continue to be risks and volatility, as we have seen with the price of oil rising substantially recently. Because there have not been major increases in oil demand or dwindling gas inventories, it is likely that political unrest in the Middle East is the driving force behind these recent spikes. This has caused significant hand-wringing among politicians and in the financial press. However, these uncertainties will eventually be resolved, and we will move on to a new set of uncertainties and more hand-wringing. Throughout it all there will be companies providing the goods and services that people all over the world need, and the owners of those companies will likely be rewarded for being willing to invest during those times of uncertainty. The "menu" choice for you is: Do you want to be one of those owners?

This article is limited to the dissemination of general information pertaining to Burns Advisory Group's ("BAG") investment advisory services and general economic market conditions. The information contained herein should not be construed as personalized investment advice, and should not be considered as a solicitation to buy or sell any security or engage in a particular investment strategy. Past performance is no guarantee of future results, and there is no guarantee that the views and opinions expressed in this article will come to pass. Individual client needs, asset allocations and investment strategies differ based on a variety of factors. BAG is neither a law firm, accountant nor tax adviser. We recommend that you seek the advice of a qualified attorney, accountant or tax advisor for legal or tax services.

BAG is an SEC registered investment adviser with its principal place of business in the State of Oklahoma. BAG and its representatives are in compliance with the current registration and notice filing requirements imposed upon registered investment advisers by those states in which BAG maintains clients. BAG may only transact business in those states in which it is noticed filed, or qualifies for an exemption or exclusion from notice filing requirements. Any subsequent, direct communication by BAG with a prospective client shall be conducted by a representative that is either registered or qualifies for an exemption or exclusion from registration in the state where the prospective client resides. For information pertaining to the registration status of BAG, please contact BAG or refer to the Investment Adviser Public Disclosure web site (www.adviserinfo.sec.gov). For additional information about BAG, including fees and services, send for our disclosure statement as set forth on Form ADV using the contact information herein.