



### The (Uncomfortable) Recovery is at Hand

*"The error of optimism dies in the crisis, but in dying it gives birth to an error of pessimism. This new error is born not an infant, but a giant."*

- Arthur C. Pigou

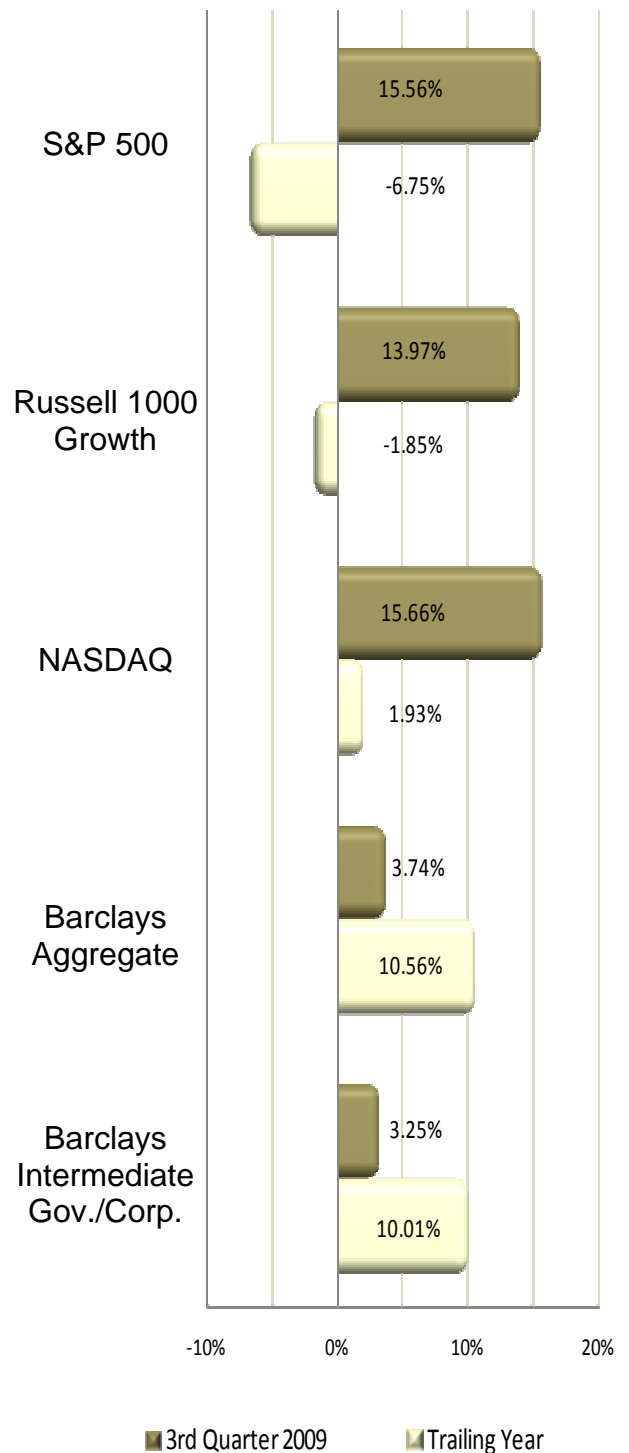
As we have discussed in our past two quarterly missives, the economy's path to recovery is likely to be choppy and uncertain. "Green Shoots" will do battle with "Black Stumps," and positive economic reports will be interspersed with negative ones. It will be frustrating, counterintuitive, and confusing to discern the path of the economy from week-to-week. Overall, however, we are siding with the esteemed Mr. Pigou and avoiding the "giant" error of pessimism. We think that a combination of massive government stimulus, low interest rates, and pent-up demand (from both consumers and industry) will drive a relatively robust economic recovery over the next year. While unemployment rates could remain elevated into 2011 or even 2012, the "big picture view" of the economy's trend will show an increasingly positive slope as the months go by. Sometime before the end of 2010, we expect that the National Bureau of Economic Research will tell us that the Great Recession ended in the fall of 2009.

The financial markets should also continue to improve over the next year, although not without some fits and starts along the way. Many investors apparently do not share our view, as money-market balances remain extremely high relative to past history. We think that history has shown that it is a mistake to invest too conservatively at the beginning of an economic recovery. It is worth noting that low-risk assets like money markets, CD's, and Treasuries currently offer truly miniscule yields. Given our belief that the recovery will (eventually) be accompanied by higher rates of inflation, we do not recommend that investors keep too many of their investment "eggs" in the risk-free "basket."

On the other hand, we find both U.S. stocks and corporate bonds are attractive at current levels. For a variety of reasons, we think broad stock market averages could be more than 20% higher by the end of 2010. At the same time, conservative fixed-income investors can expect to earn 4% to 6% annual yields in investment-grade bonds without taking on undue risk of principal or interest rate risk. We continue to believe that a balanced and diversified portfolio comprised of high-quality stocks and bonds is the best way for most investors to approach the uncertain (but still promising) future.

The JAG Team, October 2009

### Market Index Update



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