

2010 Market Outlook - Remarkably Unremarkable

February 2010

Our research of stock market prognosticators seems to suggest to us that over the next 18 months, the outlook for the market, as defined by the Standard & Poor's 500, is likely to trade in a range between 1,000 to 1,300. As of Feb 1, 2010 we are currently around 1,100. This suggests to us that while an investor should not take big risks or place big bets, they should not go and sell at the first sign of danger either.

The mood of investors is, on balance, more pessimistic than optimistic, which leads us to share a simple, easy to understand explanation of how investor psychology affects stock prices.

The mood of the country can affect the prices paid for each \$1 of corporate earnings. We expect a strong corporate earnings recovery in 2010 and 2011 due to cost cutting and overseas profits as consumers in developing countries buy from the United States. However, the pessimistic mood of investors here could temper the prices paid for each \$1 of earnings (known as P/E, or Price/Earnings).

Presently, investors are neither fearful nor greedy, and short-term, not very optimistic. We believe that this "mood" keeps a lid on stock prices, keeping stocks range bound. For example, in 1981, a greatly pessimistic mood, due to high inflation and economic malaise, priced the earnings for the Standard & Poor 500 at \$10 for each \$1 of earnings. By the end of 1999, investors, very optimistic about low inflation, globalization, internet productivity and a balanced federal budget, were willing to pay \$30 for each \$1 of earnings. Therefore, the bull market of the 80's and 90's was due only in small part to earnings growth (corporate earnings average 6.5% per year) but more so by the change in the mood from pessimism to optimism. This is where investors priced stocks three times higher at the end of the decade of the 90's than they did at the beginning of the 80's.

Looking forward, strong corporate earnings are possible for this year and next, but could be tempered by an unenthusiastic response by investors. This helps to explain a possible range of 1,000 to 1,300 on the S&P 500. Should the market earn \$74 this year, you can price the following scenarios:

Price per each \$1 of earnings	Market Price
17.5	1,295
16.0	1,184
13.5	1,000

Sixteen times earnings seems like a fair price to many forecasters, thus the range bound market that offers a remarkably unremarkable forecast. Not bad, not great, but good nevertheless.

We have all heard the phrase, "Until morale improves, the beatings will continue". Until optimism improves, the improvement and corporate earnings in America are unlikely to be believed or greatly appreciated by rapidly rising stock prices. There are a number of reasons morale may stay low, but it is likely to be offset by improving earnings of corporations, not just in America, but worldwide. Ultimately, morale improves and optimism returns, but it will take time.

While we hope this economics lesson is helpful, we believe that the best use of our clients' time is in planning sessions with us where we discuss your future. In our appointments, we are helping investors restructure their balance sheet, focus on risk management issues and setting spending and funding policies that relate to specific goals. We continue to be amazed that investors really do not know how much money it takes for them to live on an annual basis. Through these meetings, we have made great progress in helping bring confidence to our clients. There is no reason we have to be pessimistic about our own future just because we are pessimist about the world around us. Let us help you have a plan.

Enclosed you will find our updated practice overview, "Helping families manage important aspects of their financial life." Please take a minute to allow us to reintroduce ourselves and ask, "Where do you see yourself in five years?" Our mission is to help you get there. Please feel free to pass this along to a member of your family or friend.

Thank you for allowing us to take the financial journey with you, one that gives us both purpose and meaning.

Sincerely,

Davidson Wealth Management of Wells Fargo Advisors



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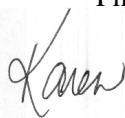
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