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YEAR IN REVIEW, YEAR IN PREVIEW

As we head into the next decade, let's take a look back at the past year and forward to 2010.

To say the least, 2009 was an up and down year. Thankfully, it ended with the up. We saw the beginning of 2009 continue the downward trend that ended 2008. There was much fear and anxiety with the deteriorating world economies, banking crisis, housing malaise and increasing unemployment. With the spring, "green shoots" of hope sprang up as the banking industry and housing markets seemed to stabilize and the stock markets, looking for any good news to build on, turned positive. It was full steam ahead from there. The year ended with the S&P 500 posting a calendar year gain of roughly 23%. At its bottom in March, the S&P 500 had retracted roughly 57% from its October 2007 high.

Looking ahead to 2010, it seems that for every market analyst who is predicting a rebound in 2010, there is another who is predicting a double dip recession. I am not in the business of making predictions, but making educated asset allocation decisions based on the facts and circumstances presented. That said there are a number of areas that I will be watching closely to help make those decisions.

A close eye will need to be kept on the unemployment rate. If the unemployment rate continues to weaken, it could dampen consumer spending and keep the recession possibility on the table. If the unemployment rate stabilizes, the consumer may hold up and manufacturers may be forced to increase production to replenish the already low inventory levels. If that happens, they may begin to hire to keep up with the increased production demands. A stabilization or decrease in unemployment, which is typically a lagging economic indicator, would offer support that the recession is over.

Commodity prices and, more directly, inflation is another area to keep a watch on that will help guide the asset allocation decision making process. If commodity prices continue to increase, we could experience an inflationary environment. If inflation creeps in, the Federal Reserve may have no choice but to increase interest rates. An unexpected or premature increase in interest rates may put the brakes on an already difficult bank lending situation and take the air out of the stock market.

2010 is a year that we will all watch with much interest. Although I highlight some specific indicators that could affect asset allocation decisions, Vavra Capital Management believes that long term investing is the cornerstone of any financial plan.