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Anatomy of a Market Recovery

Here we are in January after what will go into the history books as one of the worse years the market has endured. Right now the market is in the early stages of repair and rebuilding. The extreme volatility that we experienced in the last quarter has subsided. The VIX which measures volatility is down over 50 percent from the highs experienced in October. This return to more normal price action will allow investors to feel more comfortable putting their money to work in the market.

As I write this article the week has brought us a slew of job cuts,

about 80,000 jobs were axed in the last week of January alone. How did the stock market react, it rose. Over the last six decades the stock market has performed better when the unemployment rate was higher than when it was lower.

A study conducted by Ned Davis Research correlated the performance of the S & P 500 with different levels of unemployment. According to the firm the S & P had an annualized gain of 13.5% when the unemployment rate was above six percent. This is in contrast to the 2.1% gain the market had when the unemployment rate was at or

below 4.3%. When the rate was between 4.3 and 6 percent the S & P had an annualized gain of 5.2%.

Why did the stock market do so well with high unemployment? First, high employment is followed by stimulus supplied by the Fed and Congress. Second, high unemployment is correlated to a high degree of pessimism. Unemployment is also a trailing indicator in predicting the future economic outlook. For all these reasons and more we are looking towards 2009 as a year the bulls stam-pede.

Tip of the Quarter

Boost Your Tax Refund

1. *Did you get shortchanged last year when the Government sent out its Economic Stimulus Act rebate checks. If you didn't qualify last year and if your income took a hit in 2008 you might be able to collect on this years return. Also, if you had a child in 2008 you can qualify.*
2. *Get a first time homebuyer credit—This tax credit will give you a temporary no-interest loan if you buy a home between 4/9/2008 and 6/30/2009. The amount of the loan will be 10% of the purchase price or \$7500 which ever is less.*
3. *Child Tax Credit—Many parents will be eligible to receive a tax credit of up to \$1000 per child if the child was under 17 at the end of 2008.*
4. *For lower income earners don't forget about the Earned Income Tax Credit. The credit could be as much as \$4,824.00*

2008 Performance of Various Asset Classes

SPY (S&P500)	-37.22%
QQQQ	-41.72%
DJIA	-35.00%
Russell 2000	-33.79%
Hang Seng	-38.38%
10yr. Treasury	-44.36%
Oil Futures	-33.71%

2008 Review

I would describe 2008 as a 100 year storm. It was as volatile as they come. Our strategy of diversifying and holding was tested to the limit. Thirteen of the twenty biggest down days of the Dow

occurred in 2008. Also, of the twenty largest point gains thirteen of them happened in 2008. The Dow Jones experienced its third largest decline ever. My head aches just thinking about it. Good

riddance to 2008, we are looking forward to a much better 2009. Once again thanks to all our clients. Nobody left the ship and we have weathered this storm together.