



Gill Capital Partners

## MARKET COMMENTARY

September 1, 2009

### Bear Trap?





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The rally that started from the March low continues to hold its ground through the summer months. For the month of August, the Standard & Poor's 500 (SPX) gained 3.36%, the Dow Jones Industrial Average was up 3.54% and the NASDAQ improved by 1.54%.

The market remains in a secular bear market that dates back to 2000 and could remain range bound for quite some time. The market peaks of 2000 and 2007 are ceilings for the market while the lows of 2002 and 2009 are floors. Below are other secular bear and bull markets from 1929 to 1999.

Type of Market	Stock Market Returns (%)				
	1929-1999	1929-1941	1942-1965	1966-1981	1982-1999
Total Period	71 years	13 years	24 years	16 years	18 years
Length in Years	71 years	13 years	24 years	16 years	18 years
Annualized Return of S&P 500	10.6	(2.4)	15.7	6.0	18.5
Inflation Index (CPI)	3.3	(0.8)	3.1	7.0	3.3
S&P 500 Real Return	7.1	(1.6)	12.2	(0.9)	14.7

At this stage of the rally, one must ask, are we in the early stages of a new bull market, or is this a bear trap? The U.S. dollar and the SPDR S&P 500 ETF could provide some insight to this question.

### The Dollar

Historically, the dollar has an inverse correlation with the equity markets. A weak dollar bodes well for the markets and a strong dollar has the opposite effect. On a percentage basis, the dollar is not as volatile as the equity markets. For example, a one percent move in the dollar typically translates into a three to four percent move in the markets. If the dollar were to stage a 10% rally, that could equate to a 30% to 40% correction in the market.

At the end of August, the U.S. Dollar Index (DXY) was trading near the bottom of its price range at \$78.15. From a technical view, the dollar is poised for a rally that could carry the DXY to \$83. This would represent about a six percent move in the dollar and could translate into an 18 to 24 percent correction in the market. Below is a two year chart of the DXY vs. SPX. Note the inverse correlation.





### SPDR S&P 500 ETF

The SPDR S&P 500 ETF (SPY) is often used as a proxy for the Standard & Poor's 500 index. The SPY has appreciated approximately 50% from the March low. In the process, the SPY has formed a bearish rising wedge, and as the name implies, is bearish for the market. Generally, a bearish rising wedge will retrace back to the point of origin, in this case, \$68. This would represent a 34% correction from the closing price of \$102.46 on August 31, 2009. Please see the chart below.



### Summary

We anticipate that the U.S. dollar will stage a rally with an upside target of \$83. Depending on how the news unfolds in the coming weeks, the equity markets could correct anywhere from 10 to 30 percent. As a point of reference, our best case - worse case targets for the SPX are 875 to 825.

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Wealth Management

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Gill Capital Partners is an independent Colorado financial services firm, serving clients since 1983. Their suite of services includes wealth management, institutional services and corporate services. To learn more about the Capital Difference, please contact Gill Capital Partners.

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