

Follow The Money

November 12, 2009

The past few months we have been saying that the stock market move from the March low has been one of very light volume. Generally low volume moves indicate a lack of confidence in the direction of the market and can be a precursor to a change in market direction. This goes for both up and down markets.

During the severe down move in 2008, investors fled the market and moved their money to the money market, trying to avoid any more losses. Figure 1 shows the movement to money markets throughout the crash, peaking in March of 2009. From March to now, the safe money started moving out of the money market. The amount of money in the money markets remains extremely high, but down significantly from the highest level.

Ordinarily, a reduction in money market holdings and a rising stock market would seem like a normal relationship. Money is coming from the sidelines and being put back to work in the equity markets. This time, however, is far from ordinary.

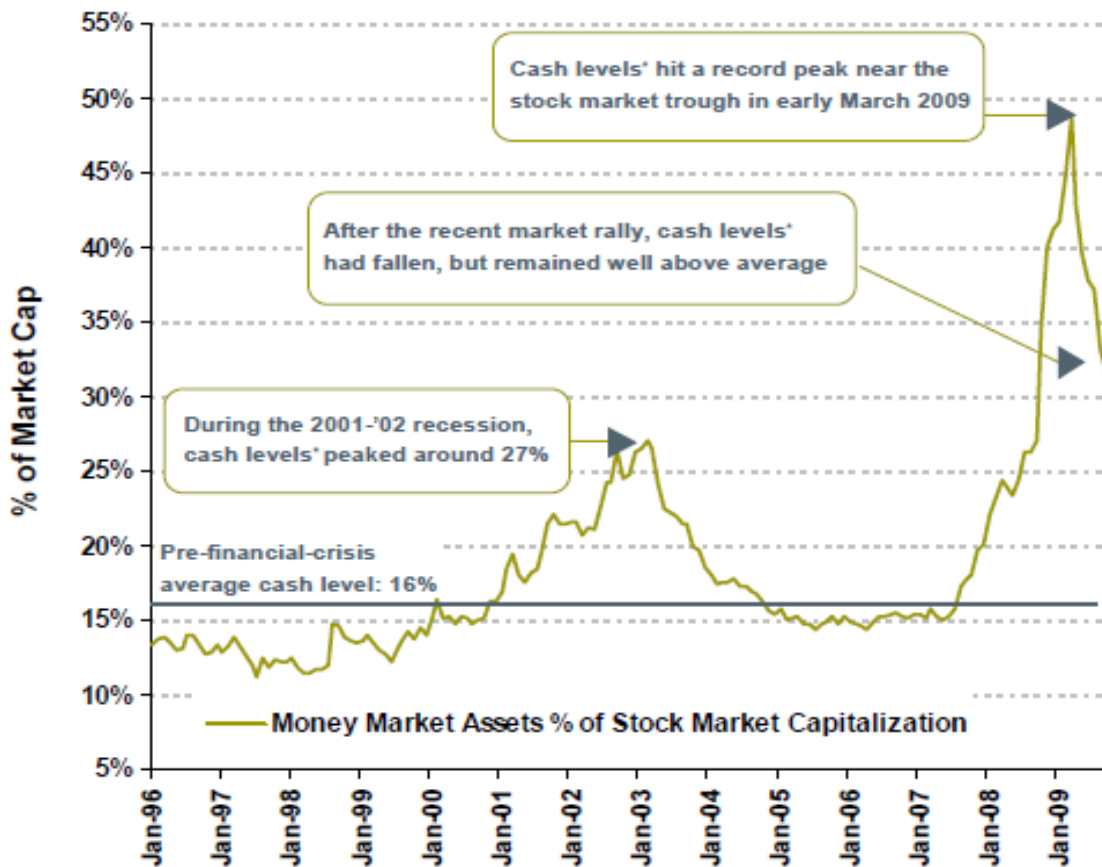
The money is leaving the sidelines but it is not going to the equity market. It is going to the bond market and doing so on a very large scale. Figure 2 shows the flow of money into long-term mutual funds, both stocks and bonds. As you can see, while the stock market is moving to its highest level for 2009, money is actually **leaving** equity funds and going into bonds. This is not simply a re-balancing or re-allocation due to a rising stock market. According to the Investment Company Institute's statistics, **this has been going on since August of 2007.**

It is quite clear that the move has been a result of some of the larger institutions moving the markets in a low volume environment. It has been a trader's market, not an investor's market.

The good news is that when the economy turns around and we get broad-based participation, we should see a significant rally where most sectors and companies participate, not just a few of them. Until then, the institutional traders and speculators will continue to control the market movements, up or down. And hence our continual caution.

Figure 1

Money Market Assets (Cash) as % of U.S. Stock Market Capitalization (1996-2009)



*All references to "cash levels" refer to money-market funds assets as a percentage of U.S. stock market capitalization. U.S. stock market capitalization represented by New York Stock Exchange listed stocks. Source: Haver Analytics, ICI, FMRCo (MARE) as of 9/30/09. The S&P 500® is a market-capitalization-weighted index of common stocks, is a registered service mark of the McGraw-Hill Cos., Inc., licensed for use by Fidelity Distributors Corp. You cannot invest directly in an index. Past performance is no guarantee of future results.

Figure 2

Estimated Flows to Long-Term Mutual Funds

(millions of dollars)

	10/7/2009	10/14/2009	10/21/2009	10/28/2009	11/4/2009
Total Equity	-4,241	-3,259	1,925	-840	-4,704
Domestic	-4,817	-5,136	-974	-2,186	-5,251
Foreign	577	1,877	2,899	1,347	546
Hybrid	564	1,384	979	239	358
Total Bond	15,215	8,804	11,177	10,185	7,486
Taxable	12,483	8,440	10,642	8,850	6,587
Municipal	2,731	363	535	1,335	899
Total	11,538	6,929	14,081	9,585	3,140

*Source-Investment Company Institute

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