ICON OUTLOOK

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Unemployment Statistics Don't Tell You How to Invest

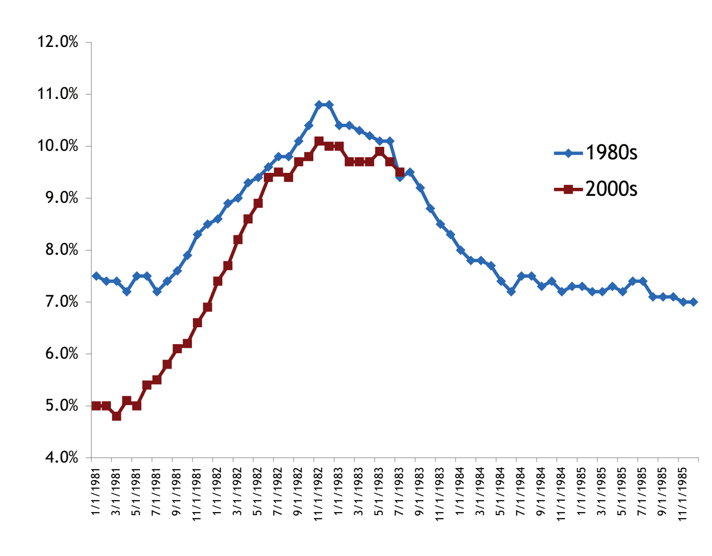
By Craig T. CALLAHAN, DBA
Founder & President, ICON Advisers, Inc.

Unemployment seems to be the number one concern for many investors who ponder the economy. If jobs are not being created, many individuals do not find the stock market attractive. As we explain below, however, these anxious investors may be worrying about something that really has little bearing on the stock market.

During the 2008-2009 recession, the unemployment rate hit a high of 10.1%. The closest comparison in recent memory is the recession of 1982 when that rate was a bit worse at 10.8%.

The graph below compares and contrasts the peak months for the two recessions and leads us to the following observations: First, before entering the recession in 1982 the unemployment rate was much higher than it was before the 2008-09 recession. In the early 1980s the rate was over 7.0%, whereas in 2007 the rate was in the 5.0% range. Second, the post-peak reduction rate in 2008-2009 is very similar to what it was back in 1983. Third, it is clear that as the economy recovered from the 1982 recession, the unemployment rate remained high for many years, taking 14 months just to get down to 8.0% and staying at 7.0% or above for another two years.

UNEMPLOYMENT RATE: 1982 & 2008 RECESSIONS



Data reflects past statistics which are no guarantee of future results*. Source: Bloomberg*

Despite this sluggish improvement in unemployment, the stock market delivered great returns off that recession's low of August 12, 1982. The following table shows returns for the S&P 500 Index for the 1-, 2-, 3-, 4-, and 5-year periods off that low (computed on a weekly basis). Furthermore, the one-year period off the most recent recession's March 9, 2009 low is shown.

S&P 500 INDEX RETURNS OFF RECESSION LOWS		
Range	8/12/1982	3/9/2009
1-Year	63.8%	53.7%
2-Year	74.2%	N/A
3-Year	107.3%	N/A
4-Year	170.9%	N/A
5-Year	282.2%	N/A

Past performance is no guarantee of future results*.*
Source: Bloomberg

Of course we don't know whether the 2-, 3-, 4-, or 5-year numbers off the March 9, 2009 low will be as impressive as the numbers off the August 12, 1982 low, but we believe this table suggests stock prices and investors were focused on other fundamentals in 1982, not unemployment. For example, corporate earnings may have been more important to investors than unemployment statistics. As reported EPS for the S&P 500 companies grew the next two years off the low in 1982, as presented in the following table. The table also reflects estimates for 2010 and 2011.

S&P 500 AS REPORTED EPS			
Percentage Change off Recession Lows			
1982 - 1983	11.0%	2009 - 2010 *(Estimated)*	29.7%
1983 - 1984	18.6%	2010 - 2011 *(Estimated)*	14.3%

Past performance is no guarantee of future results*.*
Source: Standard & Poor's

Although employment numbers were slow to improve in the early 80s, they did not seem to dramatically hinder earnings data and the stock market. We don't believe unemployment should or will have a deleterious effect on earnings or the market this time either. Unemployment data may be material to employers hiring or workers looking for jobs. And the issue may even be useful to politicians trying to unseat opponents or talk show hosts trying to increase ratings. Based on what we've seen in the past, however, unemployment data has never been useful for investing.

Past performance does not guarantee future results.

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The unmanaged Standard & Poor's (S&P) 500 Index is a market value-weighted index of large-cap common stocks considered representative of the broad market.

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5299 DTC BLVD, 12th Floor Greenwood Village, CO 80111

1-800-828-4881 www.iconadvisers.com