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## INVESTING DURING A RECOVERY

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Ok, so the easy money has already been made.

Since the market reached a nadir on Sept. 21, the Standard & Poor's 500 index is up 17.5 percent, with almost every sector participating in the recovery.

Based on past recoveries, the stock market still has room to move up, but investors will have to be more selective if they want to make money.

**James Demmert** of **Main Street Research LLC** in Sausalito looked at how various sectors performed coming out of past recessions and how they've done since Sept. 21, which could be the market's low for this recession unless things get a lot worse. Remember that the stock market usually snaps back six to nine months before the economy.

Demmert compared the stock market performance of 65 industries coming out of the past five recessions since 1964. He measured the performance from the market's low point during each recession until six months later. All stocks are in the S&P 500. The results are summarized in the chart.

Historically, the S&P 500 index gained 35 percent on average in the first six months following the market's recessionary trough.

In the almost three months since Sept. 21, the S&P is up 17.5 percent- exactly half of 35 percent.

Historically, the industries that have done best coming out of recessions are telecommunications (up 117 percent on average), technology (101 percent), finance (113 percent), retail (58 percent) and insurance (52 percent).

Since Sept. 21, telecommunications is up less than 10 percent.

"That industry was so overbuilt, it's going to take longer for inventories to work down and earnings to come back," says Demmert.

Technology is up 33 percent since Sept. 21, about a third of its usual six-month recovery.

Finance is also finding it harder than usual to come back; it's up only 12 percent since Sept. 21.

Of course nothing about the current recession, or the current recovery, is usual.

The top sectors since Sept. 21 are leisure (up 42 percent) and airlines (up 38 percent).

"Airlines and leisure have abnormally

significant upside performance," Demmert says. "Much of this can be explained by Sept. 11. Investors drove airline and leisure stocks down more than justified prior to Sept. 21, and their recent dramatic performance is more of a short-term reaction than potential long-term trend."

The same could be said for metals and mining, which has had unusually negative performance. "Gold stocks went up dramatically after Sept. 11 (as they usually do in a panic). However, since Sept. 21 they have fully reversed course, making this industry look a bit worse than it normally might in a recovery," Demmert says.

Biotechnology has done much better than usual, "but that has more to do with the industry itself than an economic recovery. Our sense is that the advances in genome research will continue to make this an important theme in an investor's portfolio," he adds.

So what should investors do? Demmert says he would ignore short-term aberrations and concentrate on those sectors that typically enjoy the strongest comebacks.

### Industry performance

*These charts show which stock market sectors have done best, on average, coming out of the last five recessions since 1964, and which have done best since the S&P 500 bottomed on Sept. 21 of this year. The average for last five recoveries reflects performance from the market trough until 6 months later.*

Historically Best Performers	Average last 5 recoveries	Since 9/21/01	Best Performers since 9/21/01
Telecommunications	117%	9.6%	Leisure 42.1%
Technology	101	33.3	Airlines 38.1
Finance	113	11.8	Technology 33.3
Retail	58	26.8	Biotechnology 29.4
Insurance	52	15.9	Retail 26.8
Industrial	48	24.5	Industrial 24.5
S&P 500	35	17.5	
Historically Worst Performers	Average last 5 recoveries	Since 9/21/01	Worst Performers since 9/21/01
Utilities	22%	-5.6%	Utilities -5.6%
Beverages	24	4.5	Tobacco -4.2
Energy	25	8.6	Metals & Mining -3.2
Drugs	29	13.3	Beverages 4.5
Hospital Mngmt	28	12.0	Energy 8.6
Containers	31	15.0	Telecommunications 9.6

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