

## Navigator Outlook for 2007

- In the January 2007 Navigator, Mark A. Grimaldi, CFS released a series of “Outlooks,” which included the following:
  - In 2007, home prices will continue to fall.
  - Oil prices will drop below \$54.00 per barrel.
  - Congress will raise the minimum wage, which will push jobs off the books. The unemployment rate will trend a little higher.
  - Inflation will remain at acceptable levels for most of 2007. An increase in the minimum wage (which traditionally has been inflationary) will be offset by the weak housing market.
  - Large will outpace small, growth will beat value. My long shot prediction of the year is gold (the single worst asset class over the last ten years) will rally.
- In hindsight, 2007 will be well remembered for the downturn in the housing market. However, while it was happening, many experts proclaimed August the market bottom, which we strongly disagreed with in several Navigator Weekly Commentaries. Mark was right at the outset. According to the National Association of Realtors, 2007 marked a decline in existing home sales of 12.8%, a 26.5% decline in new single family home sales and housing starts fell 24.7%. Median home prices dropped for the full year for the first time since the Great Depression. Mark continues to maintain that the bottom will come beyond 2008.
- While it is true that oil was at \$100 per barrel as 2007 would down, the price of oil did, in fact, drop below \$54.00 on January 11, 2007 – for a matter of minutes, the price actually dipped below \$50.00 in 2007.
- As Mark predicted in January, the Fair Minimum Wage Act of 2007 was signed into law on May 25, 2007. The unemployment rate did increase from 4.5% to 4.7%, where it stayed for several months through November, before ending the year at 5.0%.
- The Navigator Outlook for inflation in 2007 was also correct. As the Federal Reserve release of December 11, 2007 stated:

“Incoming information suggests that economic growth is slowing, reflecting the intensification of the housing correction and softening in business and consumer spending. Today’s action, combined with the policy actions taken earlier, should help promote moderate growth over time.

Readings on core inflation have improved modestly this year, but elevated energy and commodity prices, among other factors, may put upward pressure on inflation. In this context, the Committee judges that some inflation risks remain, and will continue to monitor inflation developments carefully.”

The Fed will continue to “carefully” monitor inflation data going forward, but looking back uses the word “improved.” The upward pressure that is referenced may happen in the future – especially given the early 2008 rate cuts and stimulus package. The clearest way to conclude that Mark’s Inflation Outlook was correct in the eyes of the Fed is that rates were cut several times late in 2007 and early in 2008.

- As it relates to picking mutual funds, Mark’s Outlook was right on. According to Value Line Fund Analyzer, for 2007 the Large Cap composite was up 8.72%, compared to the Small Cap composite, which was up only 4.17%. Now, this is where it gets especially good. The Growth Composite increased by 11.09% as opposed to the Value composite’s 1.80% increase. What about gold? By tracking the Gold ETF (GLD), a 30% increase makes the “Wild Card Prediction” a great call – 12 months in advance.

## Navigator Outlook for 2006

\* In January 2006 the Navigator Newsletters increased its S&P 500 "Take Profit" level to 1,375. In making that adjustment, the January Economic Outlook said, "I could change my forecast to either a better than expected year that brings the S&P 500 up, say ten percent to about 1,400." The "Take Profit" level was adjusted upward again, in the October 27, 2006 Navigator Weekly Commentary, to 1,450. At the time, we noted that "we believe that there are more profits that you will want to take."

THE S&P 500 FINISHED 2006 AT 1,418.30.

\* In the March 2006 Economic Outlook, Mark Grimaldi wrote "I expect only one more interest rate hike, in March 2006. That would nudge the federal funds rate to 4.75%." We later concluded, this time correctly, that the Fed decided to pause and allow all of the rate hikes to work. Think how rosy our portfolios would be if the rally that kicked off in August has started months earlier. Later in that outlook, we did note "the Fed has left open the possibility that it will need to raise interest rates a bit more than expected." Also from the March 2006 Economic Outlook, we said "We expect the S&P 500 to enter 2007 well over 1300." At that time, the S&P 500 had not even broken 1300 in 2006.

\* In the April 2006 Economic Outlook we were right on where we said "that the economy will experience a soft landing in 2006 or 2007." We justified this by saying "We do not think the economy will weaken too much. Interest rates are still historically low – and are definitely not high enough to reign in consumer and business spending significantly. Energy prices are also leveling off, and any restraining effect they may have had on purchasing power should diminish."

By year end, it was clear that this prediction, in every detail, was right on the mark.

THE ECONOMY CAME IN FOR A SOFT LANDING AND THE MARKETS RALLIED, THE S&P 500 GAINED 13.62% IN 2006

\* The Navigator did hedge our "March bet" in the April 2006 Economic Outlook also. "Ultimately, [Fed policymakers] may decide that they need to raise interest rates more." So, in effect, we stuck our neck out in March, and then pulled it back a little. We were right to do so.

THE FED RAISED INTEREST RATES ONE MORE TIME, THEN PAUSED IN AUGUST 2006

\* In the May 2006 Economic Outlook, the Navigator was prophetic on housing and the year end rally. At the end of 2006, the clearest threat to the soft landing that we called is the housing market. In May, the Navigator said "Housing valuations have become quite stretched in some areas ..., and some cooling is likely. That will likely lead to moderation in overall economic activity, because when people's assets are worth less, they feel poorer, and tend to spend less." With regard to the market as a whole, we pointed out that the pros were bullish months before the rally took hold. "What are the pros doing? In a word, 'buying.' The average cash positions of the 8000+ mutual funds that I monitor are down to only 2.41%. That is half of the ten year average."

\* In the June 2006 Economic Outlook, the Navigator "said that there would be several buying opportunities, and that bears repeating. I consider a 1% decline (in the DJIA) in any given day a buying opportunity ... The bottom may have happened on May 23. There is a 50/50 chance that the May 23 low could be tested in mid-July."

ON JULY 17, 2006, THE S&P 500 HIT ITS LOW FOR THE YEAR, CLOSING AT 1,234. FROM THAT MID-JULY "BUYING DAY" - THAT THE NAVIGATOR TOLD OUR SUBSCRIBERS TO BE ON

THE LOOKOUT FOR SEVEN WEEKS IN ADVANCE – THROUGH THE END OF 2006 THE S&P 500 WAS UP MORE THAN 14.90%.

\* The August 2006 Navigator Economic Outlook compared 1995 to 2006. “I believe this was the start of the great rally of 1995 – 1999. The Federal Reserve is pretty much at the same point now as it was in March 1995. There could be one more increase this month, then a pause. Wall Street would rally around that scenario.”

WALL STREET DID “RALLY AROUND THAT SCENARIO.” FROM THE FED’S PAUSE ON AUGUST 4, 2006 THROUGH DECEMBER 31, 2006 THE S&P 500 WENT UP 10.86% IN LESS THAN FIVE MONTHS.

\* The September 2006 Fund Spotlight addressed how successfully the Navigator has utilized high yield bonds to navigate income investors through a rough bond market. “Two years ago, on page 12 of the September 2004 Fidelity Navigator, you read ‘Technically speaking, we are in the sweet spot for Corporate High Yield Bonds.’ ... Now that the Fed has broken its streak of 17 straight rate hikes, our feeling is that the sweet spot will continue.”

USING FIDELITY CAPITAL & INCOME AS AN EXAMPLE – YOU CAN JUST AS EASILY USE VANGUARD HIGH YIELD OR NORTHEAST INVESTORS TRUST FROM THE NO-LOAD OR MUTUAL FUND NAVIGATORS – THE FUND’S BENCHMARK WAS UP A RESPECTABLE 1.77% IN THE THREE MONTHS FOLLOWING THIS ARTICLE. HOWEVER, FAGIX WAS UP A WHOPPING 4.87% DURING THE SAME PERIOD.

### [Navigator Outlook for 2005](#)

\* The February 2005 Navigator Newsletters contained the following analysis, “Based \$65 worth of expected GAAP (generally accepted accounting principle) earnings for 2005, and assuming that a fully valued S&P 500 index would be trading at 20-times earnings, the index would run into valuation trouble at about 1,300 points.

TOWARD THE END OF 2005, THE S&P 500 HIT 1275.37 AND HAD TROUBLE BREAKING PAST THAT POINT.

\* The September 2005 Navigator Newsletters were published when the market was boasting four-year highs. In the September issues, the Navigator warned of a drop in the market going into October, even if not a lasting one. The Economic Outlook said that the Navigator does not “see a lasting drop in the S&P 500 below 1,182 points – not for this calendar year, anyway.” The Navigator went on to say, “Getting to 1,182 points on the S&P 500...is no big deal.”

THE INDEX DROPPED TO 1,175 POINTS ON OCTOBER 13, 2005. THE RISK ANALYSIS WAS OFF BY A MERE SEVEN POINTS ON THE S&P 500.

\* The December 2005 Navigator Fund Spotlight said, “Large cap growth is showing signs of breaking out of its three year resistance point.” Over the next 12 months (December 1, 2005 through November 30, 2006), large cap growth, as an asset class, had the second highest return of out of ten asset classes. The only asset class to better the large cap growth was actually large cap value. Out of 2501 funds, the 28.48% that large cap growth averaged in the 12 months following the “Breakout Call” is tremendous. While small cap growth has also done well, returning 15.65% as an

asset class, the Navigator's Model Portfolios – particularly Capital Appreciation - have benefited from our emphasis on large cap equities.

AS AN ASSET CLASS, THE AVERAGE RETURN OF 2501 LARGE CAP GROWTH FUNDS WAS A TREMENDOUS 28.48%

### [Navigator Outlook for 2004](#)

The January 2004 issue of Navigator Newsletters included the "Outlook for 2004." Here are multiple predictions for 2004 that appeared in the Navigator word for word.

\* "The Dow Jones Industrial Average and the S&P 500 have gone ten months with no correction meaningfully below their respective 50-day moving averages. Expect a 'normal' correction of 7-10% for these indices (and more for the NASDAQ and Russell 2000) in the first half of the year. Don't panic."

FROM PEAK TO TROUGH THE S&P 500 FELL ABOUT 8.2% - AS EXPECTED. "DON'T PANIC" WAS TREMENDOUS ADVICE, BECAUSE THE MARKETS DID MOVE UP TO FOUR-YEAR HIGHS.

\* "Expect a correction that is relatively long but normal in its severity, giving way to the resumption of a cyclical rally."

THE CORRECTION LASTED ALMOST NINE MONTHS, UNTIL THE DAYS LEADING UP TO THE PRESIDENTIAL ELECTION. AS INDICATED ABOVE, THE MAGNITUDE OF THE DROP WAS IN THE EXPECTED RANGE, GIVEN HISTORICAL NORMS, AND THE RESUMPTION OF THE RALLY ENSUED.

\* "Higher Highs Usually Follow. The corrections following inordinately long rallies have thus tended to be longer than normal, but no more severe than normal in their magnitude. And they have tended to give way to renewed rallying that has brought the DJIA substantially higher than its level when the correction started."

THE MARKETS DID, IN FACT, MAKE THEIR WAY TO MULTIPLE YEAR HIGHS.

### [Navigator Outlook for 2003](#)

In November 2002, we predicted that the United States would go to war with Iraq. At that time, very few members of the investment community were talking about this. Therefore, the investment community was not talking about the repercussions of the war on the markets. On October 11, 2002, the Navigator short-term outlook for equities was changed to "Bullish" and our model portfolios were fully invested in equities. While we knew that the war would temporarily hurt the market, we did know that it would only be temporary.

For 2003, the Navigator Capital Appreciation model portfolios returned 31.99% (No-Load Navigator), 31.97% (Fidelity Navigator) and 27.01% (Mutual Fund & ETF Navigator).

### [Navigator Outlook for 2002](#)

\* The January 2002 Navigator Economic Outlook warned that "the earnings yield (of the S&P 500)

has dropped to about 4.3%, and the yield on the 10-year Treasury note has shot up to 5.1%. What does this mean? It means that I've had my three months of bullishness, but now I must adhere, once again, to a more bearish sentiment." The February 1, 2002 Navigator Economic Outlook "announce[d] that the recession is over," but cautioned that "stabilization in the economy does not necessarily translate into a better performing stock market."

THE S&P 500 FELL 13.8% IN THE NEXT SIX MONTHS

\* On May 10, 2002, the Navigator Weekly Commentary stood alone in calling the summer's market drop, "if [the NASDAQ] pierces the 1600 level again, the prudent investor will not hold out for another relief rally and instead will find some opportunities to make changes in their portfolio...the NASDAQ is setting up for a retest of the September lows of the 1400s".

THE S&P 500 FELL about 25% FROM THAT PRESCIENT CALL

\* The October 11, 2002 Navigator Weekly Commentary offered a unique opportunity, "the VIX broke 50 on Thursday (October 10th), and that is my buy signal this time. So what's the trade? This is not the beginning of a new bull market, but it is time to get cash into equities."

THE S&P 500 INCREASED 22% IN SEVEN WEEKS.

[Navigator Outlook for 2001](#)

\* The May 11, 2001 Navigator Weekly Commentary forecasted "don't get too scientific in these macro-economic measurements. Just ask yourself; does it feel like a recession? [We] don't think it feels as bad as 1990-1991, but it is bad enough."

THEN THE S&P 500 FELL 16.5% FROM THAT DAY UNTIL SEPTEMBER 28

\* The September 28, 2001 Navigator Weekly Commentary urged action, "equity valuations are better than they have been in years."

THE S&P 500 THEN ROSE 10.4% FROM THAT DAY UNTIL JANUARY 1, 2002.