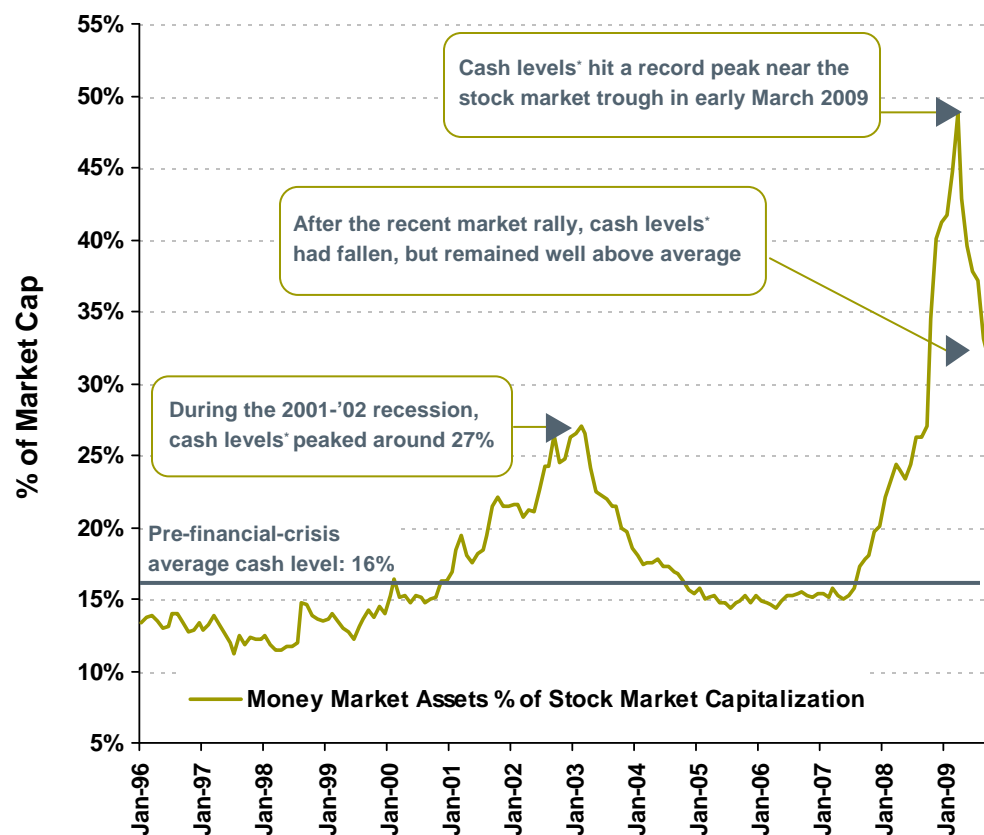




Still-High Cash Levels May Provide Further Support for Stocks

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®, 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.

Recent Stock Market Rebound Was Big and Bold

- ▶ After negative returns in 2008 and early 2009, the S&P 500 Index has risen 58% from March 9 to Sep 30, marking one of the fastest and most robust starts to a new cyclical bull market ever.

Some Investors Arrived Late (Or Not at All)

- ▶ The recent rally mimics historical patterns of investor behavior showing that a large percentage of a new bull market's total gain typically comes in the early months while the economy remains in recession, and when an above-average number of overly bearish investors are still heavily invested in cash (see MARE article, *How Will the Bear Market End?*).
- ▶ As the stock market rallied in recent months, there was a very large percentage of assets parked in cash-like, money-market funds relative to the size of the U.S. stock market (see chart).
- ▶ More specifically, the stock market is up 58% since its most recent March 9 low while the absolute level of assets in money-market funds fell only 9%, illustrating that many investors either were late to the party or didn't fully participate in this vibrant rally.

High Cash Levels May Provide Further Price Support

- ▶ Although investor cash levels have fallen from their record high in March, their value is still equivalent to about 32% of the entire U.S. stock market. This level of cash—as a percentage of what it could purchase of the overall stock market—remains higher than the 27% peak rate seen during the 2000-2002 bear market, and about double the historical average rate of 16%.
- ▶ The still-high cash levels suggest that many investors remain skeptical about investing in stocks, which is often seen as a positive sentiment indicator for contrarian investors.

Investment Implications

- ▶ Given the severity of the recent recession and 2008 market decline, it may take longer than in the past for many shell-shocked investors to consider reallocating to stocks.
- ▶ Still, the cash stockpile on the sidelines remains so much larger than it historically has been that it would only take a smaller percentage of stock market re-entrants (relative to past cycles) to provide significant further support for stock prices.