



## Market Overview – Crisis in Japan / Equity Market Implications

In the days following the tragic earthquake and tsunami in Japan, it is clear that global equity markets can quickly become volatile and uncertain, forcing some investors to abandon reason at the first sign of a challenge. Sophisticated investors however recognize that disasters and global crisis' do occur and provide exceptional investment opportunities. Yes, even in the wake of a crisis, we have learned that the global investor is quite resilient and ultimately quick to recover from these events and even benefit in the long run.

The unfolding crisis in Japan is indeed a fluid scenario with new information emerging by the hour. Adding to the human loss is the developing nuclear crisis. As the world awaits further information from officials, our obligation to you, our client, is to address the financial implications of this disaster and the impact on global equity markets and ultimately your portfolio.

**Immediate Impact:** The Japanese stock market dropped over 10% and the world is re-evaluating nuclear energy. Short term, nuclear energy concerns will be positive for alternative energy sources such as natural gas, wind, and solar energy. When combined with the ongoing turmoil in the Middle East, a significant positive for oil prices, demand for alternative energy will be even greater.

**Long-Term impact:** Japan will see a contraction in GDP from the loss of consumer spending over the near term, but we do not believe GDP will suffer long term. We also expect to see an increase in government spending. Japan has a very advanced economy and considerable resources to handle a lengthy rebuilding process.

Historically, similar tragedies and exogenous events can provide perspective and offer some likely guidance for the future of the financial markets post an event. In each case below, equity markets moved higher following the event. Only time will tell the impact of the Japan earthquake/tsunami.

Figure 1:

Event	DJIA Closed	DJIA 30 days later	DJIA 60 days later	DJIA 90 days later	DJIA 120 days later	
U.S. Invasion of Iraq - January 17, 1991	2,623	2,889	2,874	2,900	2,934	↑
World Trade Center Bombing - February 26, 1993	3,370	3,396	3,523	3,510	3,569	↑
Oklahoma City Bombing - April 19, 1995	4,195	4,369	4,702	4,617	4,789	↑
Terrorist Attacks - September 11, 2001	9,606	9,075	9,852	10,022	9,920	↑
Hurricane Katrina - August 29, 2005	10,463	10,473	10,403	10,932	10,778	↑
Japan Earthquake/Tsunami - March 11, 2011	12,044	?	?	?	?	

Source: DJIA / Rushmore

Reconstruction in Japan could provide an economic boost similar to the Iraq invasion in January 1991. In fact, that activity lifted the U.S. economy out of the 1990-91 recession. We have conducted evaluations of all sectors of the market and their relative performance during each of the aforementioned events. On the following pages are examples of how each sector performed immediately following the event. Again, in most cases, the sector saw an increase in performance following the event.

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**Figure 2: US. Air Strike / Invasion of Iraq - January 17, 1991**

	Sector 30 days later	Sector 60 days later	Sector 90 days later	Sector 120 days later	
Treasury Bills	441.16	446.36	448.92	451.34	
Energy	18.53	19.37	19.87	19.4	↑
Materials	18.92	18.62	19.3	19.52	↑
Industrials	10.42	10.41	10.76	10.51	=
Consumer Discretionary	10.25	10.61	11.67	11.32	↑
Consumer Staples	14.42	14.9	15.41	14.94	↑
Healthcare	10.56	10.94	11.46	11.29	↑
Financials	7.82	7.93	8.51	8.14	↑
Information Technology	4.16	4.1	4.02	3.75	↓
Telecommunications	17.93	17.287	17.79	17.08	↓
Utilities	19.79	19.43	19.71	19.58	=

**Figure 3: World Trade Center Bombing – February 26, 1993**

	Sector 30 days later	Sector 60 days later	Sector 90 days later	Sector 120 days later	
Treasury Bills	490.58	491.83	492.36	494.37	
Energy	21.03	21.04	21.81	21.39	↑
Materials	24.12	24.4	24.86	23.97	↓
Industrials	14.01	14.28	14.25	14.47	↑
Consumer Discretionary	15.41	14.39	15.09	14.61	↓
Consumer Staples	18.21	16.46	17.03	16.89	↓
Healthcare	9.95	10.49	11.26	11.03	↑
Financials	13.94	12.94	12.75	13.25	↓
Information Technology	4.65	4.42	4.9	4.84	↑
Telecommunications	23.02	22.6	23.34	23.81	↑
Utilities	25.33	25.12	24.91	25.44	=

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Figure 4: Oklahoma City Bombing – April 19, 1995

	Sector 30 days later	Sector 60 days later	Sector 90 days later	Sector 120 days later	
Treasury Bills	536.19	539.44	542	544.92	
Energy	23.84	24.15	23.73	23.11	=
Materials	29.76	29.87	32.64	31.73	↑
Industrials	17.24	17.36	18.13	18.15	↑
Consumer Discretionary	16.1	16.44	16.53	16.44	↑
Consumer Staples	21.38	22.1	21.99	21.77	↑
Healthcare	14.32	15.27	15.51	15.95	↑
Financials	14.24	14.68	15.16	15.42	↑
Information Technology	8.13	8.58	9.87	9.96	↑
Telecommunications	23.59	23.98	24.09	24.39	↑
Utilities	21.86	22.59	22.49	22.47	↑

## Outlook

As with all events that impact equity markets, RIA is monitoring the events in Japan and will make strategic portfolio decisions to benefit the RIA portfolios based on the RIA investment process. Now is not the time for investors to forsake a disciplined investment approach. Opportunities are abundant and we are confident that equity markets will continue to recover from the events at-hand just as in previous periods. Notwithstanding the crisis in Japan, as well as the ongoing Middle East crisis, the U.S. economy has been improving in the 1st quarter of 2011. Quarterly earnings for the S&P 500 are on track to grow 29% year-over-year, jobless claims continue to decline, and the overall market valuation remains muted with a very attractive price-earnings multiple of 13.7.

Thank you for your continued trust in Rushmore Investment Advisors. Should you have any questions, please do not hesitate to contact us at 972-599-9550, or [info@rushadv.com](mailto:info@rushadv.com).

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