



Thank God It's Friday!

April 11, 2008

Baseball returned to San Francisco this week and the Olympic torch left The City. Perfect! Then along came Corporate Earnings Season to put a kibosh on all the fun.



Leading off and pitching is General Electric, reporting first quarter earnings today that brought a gloomy indicator of global economic health. GE stock was punished for disappointing Wall Street as the stock traded down \$4 on the news; bringing down most stocks in its wake. It is clear GE's first quarter was two separate stories: Financial versus Non-Financial; Domestic versus International. The financial side of the business took a hit in March when the Bear Stearns drama played-out causing The Fed to intervene and underwrite a takeover by JP Morgan Bank. Liquidity dried up leaving a lot of deals on the table. Offsetting this weak financial performance was stunning progress of its global businesses where revenues were UP 22% and profits UP 38%. Its infrastructure businesses came-in with sales UP 23% and earnings UP 17%. Not bad at all! However, GE's US businesses were DOWN 5% with a less than rosy outlook. As usual GE's cash flow is strong – forecasting \$23 billion for the year – and infrastructure (especially aviation) should remain strong. GE's shortfall, due to a slowing US economy, will likely overhang the market for a while – particularly in companies that lack global diversification.



Hitting second and playing center field is GENENTECH reporting its first quarter earnings yesterday. The biotech giant's earnings were up 12% beating Wall Street expectations by \$.02 however sales were below estimates, particularly for top selling drug Avastin. In late February, the FDA approved Avastin for both lung and breast cancer chemotherapy and the launch is going well. We remain committed to Genentech's important future product introductions particularly addressing breast cancer and brain cancer.



On deck, earnings will be reported by Coca-Cola, Google, Johnson & Johnson, and Apple. These positive reports should be overshadowed by money center banks reporting disappointing earnings. We cling to our thesis that the current recessionary business environment is predictably cyclical and markets will rebound after re-testing the January 23<sup>rd</sup> lows. It's almost time to start thinking about buying. Since markets are always looking ahead, stocks usually start their declines before downturns appear and recover shortly after economic activity hits bottom. That said, we are getting ready to add Consumer Staples and Technology stocks to boost portfolio growth. These sectors should weather the next two quarters which may be problematic while good ideas are just getting cheaper.

By Jude Bedell

INDEX	04.11.2008	12.31.2007	%Change
DOW JONES	12,325	13,265	-7.1%
S&P 500	1,333	1,468	-9.2%
NASDAQ	2,290	2,652	-13.7%
Bond YIELD	3.47%	4.03%	-13.9%*

\* Bond Prices

Bond Yield %