

Thank God It's Friday!

May 1, 2009



Spring came early this year, as the Stock Market banked the best monthly gain for April in 9 years, with the S&P climbing 9.4%. Taking it a step further, the Market has surged 30% in just 8 weeks. Earnings have been much better than expected, showing that companies can still turn a profit amidst the recession. The Fed plans to remain very accommodative to the fragile economy. That means interest rates should stay low for a while, which will continue to help put a floor under the housing market.

Despite the Market strength, most investors continue to be highly skeptical. The popular belief is that we are not yet out of the woods. The announcement of Chrysler's expedited bankruptcy this week will surely be followed in short order by news on how a General Motors controlled workout will look. President Obama has already signaled that GM will receive government assistance. In addition, the "Stress Test" being applied to the Banks will report results next week. The news flow will remain dramatic, but the Market keeps taking information in stride, and the news is becoming less frightful than feared.

It is our gut feeling that disaster has been avoided. Although still possible, the probability of a global depression has decreased. What we face is a deep and sloppy recession which the consumer has to outlast. Belt tightening and cost cutting will be pervasive for the next couple of years as people try to save money. Unemployment may reach 10% nationwide. But Markets are forward looking, unlike economic reports. Stocks and commodities, particularly those exposed to China and Brazil, are telling us that not only is a recovery on the horizon but it has already begun.

So after this fierce Spring rally, is it time to sell in May and go away, as the old Wall Street adage suggests? No. We think this Market has some more room to run this year. In fact, looking at the last 20 years, the Market has actually been positive in the MAY to OCTOBER timeframe. That said, we are prepared for a pullback of healthy profit taking near-term, and covered calls have been written. But Market resilience has been anything but conventional, and technical indicators are suggesting further gains. A more relevant Wall Street adage is: Don't fight the tape. So perhaps we should craft our own adage: An investment in the Spring will prove to be a good thing.

By: Mike Frazier