

Thank God It's Friday!

May 8, 2009



What a week! Stress Tests. Job numbers. and Trouble in Dodger-town.

The results of the "Stress Test" applied by the Treasury Department to leading US banks are in. You could almost feel the collective exhale. The banks seem solvent. Although many banks need to raise more capital, the basic health of our major financial institutions has been given a clean bill of health. at least for now. 10 of the 19 banks tested will have to raise \$74 Billion in additional capital. A couple of them have already announced public stock offerings, which are being well received by Wall Street. Today's offering by Wells Fargo to meet its \$13 Billion capital need was over-subscribed as its stock skyrocketed. Stress test information had been slowly leaked throughout the week. It was like, we knew the winners, it was just a matter of finding out the

final score. The key takeaway is that the large banks won't be coming to the Government for more money any time soon. The training wheels will be coming off. The Market likes what it sees.

For you stat-nerds out there, here are the numbers: In terms of the capital requirements, the incremental total needed by the 19 banks tested is \$74.6B, split as: Bank of America \$33.9B, Wells Fargo \$13.7B, GMAC \$11.5B, Citigroup \$5.5B, Regions Financial \$2.5B, SunTrust \$2.2B, Morgan Stanley \$1.8B, KeyCorp \$1.8B, Fifth Third \$1.1B, PNC \$0.6B. Those that were deemed to require no additional capital are: American Express, Bank of New York Mellon, BB&T, Capital One, Goldman Sachs, JP Morgan, MetLife, State Street and US Bancorp.

Friday morning, the journey on the road-to-recovery got another jolt with the unemployment report. There were 539,000 jobs cut in April, much less than anticipated. The unemployment rate is now 8.9%. But let's put some perspective on this. The rate of the job decline is slowing dramatically. There were 741,000 jobs lost in January, 681,000 in February, and 699,000 in March. As mentioned last week, we still believe the unemployment rate could ultimately hit 10%. But we are clearly seeing tangible signs that the recovery is real. The next big task is to put a floor under housing, which was the catalyst of the financial meltdown to begin with. To borrow from the great philosopher Wayne Gretzky, successful investors "skate to where the puck is going to be, not where it's been". This is how we are playing this phase of the economic recovery.

An interesting development is taking shape in the Stock Market. Leadership is shifting away from Consumer and Technology stocks into commodities, particularly Energy. This is usually a strong indication that economic growth is not too far off. We expect energy stocks to lead the next stage of the recovery rally.

We still have a long way to go in this recovery, and the road will continue to be bumpy. But the fog is lifting and the windshield is starting to clear up. Make no mistake, we remain firmly on guard and understand things can change quickly. But, we are now in the 9th week of this spectacular Market rally, and the S&P has risen 37%. Probably the best news is the fact that investors can make money buying stocks and bonds again. That's saying a lot.

As for you Dodger fans out there we will spare you our comments for another day. Go Giants and Happy Mother's Day!

By: Mike Frazier