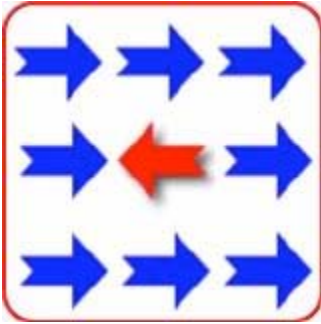


**Thank God It's Friday!**

**June 12, 2009**



A fascinating combo of skepticism and frustration has been widely present in this historic recovery rally which has entered its fourth month and seen the S&P shoot up over 40%. The rally has caught most people off guard and in complete disbelief of its legitimacy.

The low hit in March was the result of capitulation. At the time, it was widely believed that the financial system was broken, that we were headed into a Global Depression. Investors couldn't take it anymore and threw in the towel. It was full blown panic. The Stock Market reached 12-year lows. History has proven that those turn out to be the best times to be buying.

Baron Rothschild, the British nobleman, made a fortune buying amidst the panic that followed the Battle of Waterloo. It was Rothschild who coined the phrase, "The time to buy is when there's blood in the streets." This is certainly a contrarian strategy, and can often times be counter-intuitive. But as you know, the Markets are a discounting mechanism and are always forward looking. The Market discounts new information immediately, and prices things in terms of where we are going, not where we have been.

The significance of capitulation is it washes out all the sellers who are non-believers. This is usually required to ultimately reach bottom. The result is a substantial population of potential buyers on the sidelines. In March there was over \$3.5 Trillion in Money Markets. Logically, much of that money was there to be re-deployed when investor confidence was restored. What usually restores investor confidence? Quite simply: the Market going higher.

This rally has largely occurred in the face of skepticism. Much of the sideline cash has been put to work, but a substantial sum still exists. Sentiment isn't nearly as negative now as it was 3 months ago, but it still is quite pessimistic. This suggests that there is more room for this rally to run.

Everyone knows that the intent for all investors is to buy low and sell high. Simple stuff on the surface, however, the average investor has proven they are much more apt to buy high and sell low. They usually chase performance by buying stocks that have already run and shy away from stocks that have been beaten up and represent a bargain. Wall Street is the only Market that seems to turn away bargain shoppers. Emotion can distort decision making - usually for the worse.

Our sense is that the Market will hold these elevated levels and could go higher to close out June. We still anticipate some sort of a correction. But we would view the sell-off as a buying opportunity ahead of another strong rally in the second half of the year. We don't see blood in the streets, but there are plenty of non-believers, and as contrarians that gives us comfort.

Have a nice weekend.

By: Mike Frazier