

Thank God It's Friday!

July 10, 2009



July began with a rather inauspicious start, declining 5% in the first 10 days. The Spring recovery rally is under pressure, largely because many white-knuckle investors believe the Market is way ahead of itself, and things have not dramatically improved. We reluctantly acknowledge that the world changed dramatically last September when our financial system nearly broke. American's have changed their financial behavior, probably for good. In the words of the inimitable philosopher, Yogi Berra: **"The Future ain't what it used to be"**. We have said many times that this road to recovery will be bumpy, and the stock market will not continue to race to the sky. In fact, we have been preparing for a decent correction, and believe that it is now upon us.

These are the "Dog Days of Summer", applicable to Baseball as well as the Stock Market. It's a long season, and at this time of year both players and investors feel physical and mental fatigue, but need to fight through the near-term challenges and focus on the ultimate goal of success. Earnings season began this week, but really picks up in earnest

on Monday July 13th, which will provide tangible evidence of where we stand on this road to recovery. Bear in mind the following day is baseball's All-Star Game but also is "Bastille Day".

Corporate earnings reports keep score of how companies are effectively managing through the recessionary crisis and how they're positioned to grow in its wake. CEO's are measured by their skill to grow profits and their company's stock price lights-up the scoreboard. But as we move into the second half of the year, the score card is less important than what management says about the rest of the year. We know where we've BEEN; we need to get a sense of where we ARE and how quickly we're getting to where we need to GO.

Earnings this quarter by-and-large are expected to be very depressed as we muddle through the recession. Comparisons to last year's earnings are apples and oranges, because it doesn't reflect the credit freeze which began last September. We are counting on signs that improvement is at hand. Since job creation is at the core of our economic framework, we want to see signs that companies are starting to hire again.

This earnings season is kind of like Spring Training for Baseball. Nobody really cares whether you win or lose, because it doesn't count. What you focus on is how your team is developing and progressing so that they are competitive and can emerge as champions. The real season is just beginning, and now everyone is keeping score.

Coming to bat next week are some powerhouse sluggers: Google, Johnson & Johnson and IBM. We should get a clearer picture of how things have progressed and what direction the Market will take us for the rest of the Summer. We anticipate a stock market correction because the 40% vertical Springtime climb warrants it. That said, we feel very optimistic about the second half of the year. We still anticipate a return to economic growth by year end, and stocks and bonds will finish 2009 higher.

We'll leave you with another pearl of wisdom from Yogi which we find appropriate: **"You've got to be careful if you don't know where you're going 'cause you might not get there"**.

Have a great weekend.
Mike Frazier