

Thank God It's Friday!

October 23, 2009



When my son was little, he called the World Series the "World Serious". We thought it was so cute we adopted it as a family word. Of course, we let him in on the joke before he headed off for De La Salle High School.

As the 2009 Fall classic begins, the alternative pronunciation is more appropriate than ever: Serious. This Fall is a serious time for investors and also one easily explained by the baseball metaphor.

Earnings season is in full bloom right now on Wall Street to compete with World Series follies. Think of earnings as hits...sales as runs. You gotta have both to win the World Serious....uh, Series.

81% of companies reporting crucial third quarter earnings have beat analyst's estimates... that's like getting a lot of hits in baseball. Hits are nice but scoring runs is nicer. Even towering home runs won't win the game. You gotta cross the plate with BOTH earnings and sales improvements if you want to win. Higher sales are the key to winning stock market profits. For this reason, the market is narrowing its focus on sales numbers over bottom line results. Companies continue to prove their cost-cutting is working but that's not real growth. The key moving forward is to beef up sales in the fourth quarter. We'll be monitoring sales like hawks until year-end and expect to see runs, hits and few errors.

For example, Microsoft announced earnings this morning beating estimates by earning \$0.40/share vs. estimates of \$0.32/share. The stock moved up impressively off the news, but by mid-day when Microsoft lowered its future sales growth projections, the stock took a beating proving investors want it all: better earnings and growing sales.

Since the March lows, we have seen the market rise 65%...a remarkable run to say the least. However the improvements we've seen so far from Third Quarter reports have left us anxious to see sales improve in tandem. Revenue growth remains the key-driver to sustaining the current rally and enjoying it moving up another 5 to 10% before 2010 arrives. Such a move would be poetic justice for investors who have climbed a wall of worry throughout 2009. In the interim, our office Baseball pool is leaning towards the Bronx Bombers winning the trophy but those of us with National League birthrights will be rooting for the Phillies. Sorry, Yankee fans!

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