

Thank God It's Friday!

February 5, 2010



Dateline: Orlando, Florida

Thursday we spent an hour with #42 and #43 in sunny Florida. Seeing these two former US Presidents making nice together was a little bit like sitting down for a chat with Yoko Ono and Paul McCartney -- you wish they'd be a lot less politically correct.

But they gave us a glimpse of how rich political debate can be when neither party is running for office. President Bush was amusing, explaining to the audience of wealth managers that following a life of public service he didn't really have a lot of money: He was "all hat, no cattle". In

the Q & A session Clinton proffered a plan to create jobs while simultaneously achieving green initiatives including energy efficient construction in lieu of "make work projects."

During this 3-day Florida investment conference, we rubbed elbows with Industry Analysts who cover S&P- 500 companies. They are wildly bullish on the outlook for corporate earnings. Their latest projections imply that the S&P 500 might soar to 1,300 by the end of this year. We see a tamer 2010 based on our rationale that the "new normal" growth rate for the US economy is 2% GDP with 2% inflation. The historical GDP growth rate has been 3-3.25%.

Better-than-expected corporate earnings for 2009 have fallen on deaf ears, as evidenced by the recent decline in the market. We understand the dichotomy: Analysts are "fundamentally" correct whereas Investors reflect "sentiment" which tends to err on the side of caution. However, sentiment turns on a dime because it is largely driven by fear: Fear of the market doing an instant replay of the 2009 slide; Fear of losing the gains which brought portfolio profits back during the last three quarters of 2009. Stock prices will continue to recover along with corporate earnings because that's what they do. As soon as investors regain confidence, they will cease being fearful, and jump on the earnings bandwagon with the forward-thinking Analysts.

The Market tug of war continued in full throttle this week, with a strong start followed by swift decline, only to see stocks close down less than 1% for the week. We anticipate more of this in coming weeks and plan to defend further and buy the weakness.

By: Jude Bedell & Mike Frazier

PS: A third celebrity we broke bread with today was Terry Bradshaw, the Super Bowl winning quarterback from the Steelers, who assured us that either the Saints or the Colts will win the Super Bowl. There is a theory that the winner of the Super Bowl will foretell the future of the Stock Market for the rest of the year. According to this theory either a Colt or Saint victory will be bullish for the market. The Super Bowl Theory holds that a victory by an NFC team or an original (pre-1970 merger) NFL team --the Browns, Colts, or Steelers-- point to a bullish market. An AFC victory signals a bearish drop in the market. The Super Bowl Theory has accurately forecasted the stock market 32 times out of 43.