

One Year later

A year ago the stock market and economy were in disarray and it appeared that it was going to continue into the foreseeable future. The S&P500 was down 11% during the 1st quarter of 2009 after being down 37% the year before. The economy was not looking any better.

Our Spring 2009 newsletter titled “Some Positive Signs?” listed a myriad of issues affecting the markets.

1. The economy that feels like it is in a free fall
2. Rising unemployment rate
3. Collapsing auto industry
4. Massive stimulus packages
5. AIG and the nations largest banks needing to be bailed out
6. Over leveraged individuals and companies both here and abroad
7. Madoff ponzi scheme
8. Slumping housing market
9. Lack of investor confidence
10. Regulations that aren't working

Everything seemed so overwhelming it made you wonder if the markets and economy would ever recover.

As you look through the list today it becomes apparent that a number of the conditions above are starting to work themselves out. Large banks have paid back their government assistance and are starting to lend again. Companies have been deleveraging. The housing market is slowly recovering and so is the auto industry.

The markets have been climbing the wall of worry and are recovering also. The S&P 500 ended 2009 up 30% and has continued that trend this year.

Marshall & Sullivan has been doing just what we stated in our Spring 2009 newsletter a year ago; “positioning ourselves for when the economy starts to grow again”.

This has been a thoughtful process. We have been looking for companies that are fairly valued and have been able to grow their earnings in this tough economy. When we find a company that fits our strong buy disciplines, we have spent some of the cash in our accounts. We have also sold a few companies as they have recovered in price but have been unable to turn their earnings around.

For our balanced accounts, we continued to buy short and medium term government and/or municipal bonds keeping that portion of your assets protected. The yield curve is steeper than it has ever been. This signals that the economy is expected to do better in the future. We feel that the Federal Reserve will have to raise rates some time this year or early next year before inflation enters the market. Keeping our bond portfolios shorter term will allow us to take advantage of the higher rates that will result.

The economy is not out of the woods yet. Unemployment is high. The housing market is starting to stabilize but foreclosures are still a problem. Many companies are still working through their problems. Lending is tight and the Federal government has many issues to deal with.

In early 2009 the market became oversold because of the lack of investor confidence. With its increase since then it has become fairly valued when you look at price to earnings ratios. The S&P500 earnings are expected to grow 20% this year. As earnings continue to increase the market will also. This will not happen in a straight line. Volatility will remain high with the market pulling back on bad news and running up on the good. We will take advantage of the pull backs to spend more of the cash in our accounts continuing to position them for the economy's recovery.

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