



## Defining Quality<sup>SM</sup>

### **CURRAN'S OPTIMISM AMID CLOUDS OF SKEPTICISM**

The S&P 500 has clearly reached new high ground since it touched an intraday low on March 6<sup>th</sup> at 666.79. As of the close on July 23<sup>rd</sup> the S&P 500 (976.29) is about 46% higher than it was 4 ½ months earlier.

The rally isn't being taken seriously by many investors. Curran believes we are in a new bull market which continues to be ignored.

Traditionally markets have advanced significantly well before economic news becomes positive. It is one of the first things we all learned in Economics 101. However there is not a day that passes when someone somewhere is quoted saying they are looking for signs of improvement before they are ready to buy. Eventually the sentiment will recognize there is a new bull market that began some months ago. Historically all bull markets end in their belief that extraordinarily good returns are sustainable and bear markets end in the belief that extraordinarily bad returns will be sustained.

There is no magic chart that will ever tell us when we should have started to buy. However we do know since 1880 there have been five cycles lasting at least ten years when the markets have provided investors with nearly 0% returns or less than 0%. The 5<sup>th</sup> one is for the ten years ending 2009.

In each of the previous periods the following 10-20 years proved to be very kind to investors. The precise timing is, of course, impossible to predict. But we do know that after long periods of decline the markets have previously done much better with returns averaging more than 15% annually.

It is also interesting to note periods proceeding deep declines enjoy excessive and what always proves to be unsustainable returns. Remember the 90s? Investor expectations then were routinely 15% and actual results were frequently better.

Investment news is not likely to swing positively anytime soon. Remember Economics 101.

While the market has advanced yet again, consider some recent bad news that will give the pessimistic more "fuel" for staying on the sideline even longer.

- CIT Group is refused another government bail out after it discloses the company is in imminent danger of failing.
- Airlines report dismal 2<sup>nd</sup> quarter financial results prompting some to predict bankruptcy announcements sometime this winter.
- Commercial mortgage loans continue to plague regional banks.

July 24, 2009

- Wells Fargo reports problems in their mortgage portfolio while regional banks like KeyCorp, Sun Trust and Regions Financial admit their problems are not behind them.
- Morgan Stanley reports a greater than expected 2<sup>nd</sup> quarter loss from ongoing operations making it their 3<sup>rd</sup> in a row.
- Government takes over Delphi pension plans at a cost of \$6.2 billion.
- The polling news for President Obama reflects discord among voters as his popularity suffers with the economy. After six months in office a USA Today/Gallup Poll placed him as the 10<sup>th</sup> worst of 12 presidents in popularity since World War II. The only Presidents finishing worse after their initial six months were Bill Clinton and Gerald Ford.

Our outlook for the stock market continues to be favorable. Generally earnings should continue to be better than expected with 3<sup>rd</sup> quarter earnings reflecting continued improvements from cost cutting along with very early increases in revenues as the economy stabilizes. By year end a recovery should be obvious to all but the overly pessimistic.

However we are negative regarding the outlook for fixed income. Continued caution is urged with regard to both interest rate risk as well as credit quality. Curran believes interest rates are likely to rise in longer maturities unless the Federal Reserve aggressively continues their purchase of longer dated mortgages and bonds. It is a conundrum in that there is a problem if they do act aggressively (future inflation) and again if they do not in allowing long-term interest rates to rise. (Slowing the recovery in residential real estate and exasperating the problem in commercial mortgages.)

We are confident short-term rates will remain low creating a huge temptation for income seeking investors to extend maturities too far seeking incremental increases in yield.

A handwritten signature in cursive script that reads "Toms".

*The comments above are provided as a general market overview and should not be considered investment advice or predictive of any future market performance. Information is derived from sources believed to be reliable; however Curran Investment Management cannot guarantee its accuracy.*