



VIEWS DECEMBER 2011

BY THOMAS CURRAN

A popular yet pessimistic refrain being heard these days is that the financial and political systems are broken and the world may be entering a long-term depression. Many say, "It is different this time!" But why would it be? Eventually, the economy's structural challenges will be resolved and the economy will recover as it has in the past.

While we can be certain the economy and the markets will eventually rise, we can be equally certain not everything will recover, but new opportunities will emerge. As for the timing of a more robust recovery, we all have our opinion.

My opinion is the recovery in the stock market began in March, 2009. Since then the S&P 500 Total Return Index has risen close to 100%. Like most bull markets that follow a severe financial crisis the market has "climbed a wall of worry." This time is no different.

Consider for a moment that markets usually do better than expected when investors lack confidence, and they frequently disappoint when we are very confident.

Now many people expect the economy to do miserably and the stock market to reflect the same. Today's economy along with its high unemployment rate is not very reassuring. The economy is causing the lowest levels of confidence that I can recall since the '70s and early '80s. As a result, investors are "hibernating" while they wait for the economy to improve.

When investors are not suffering from lack of confidence about the future, we are usually experiencing varying degrees of optimism. The great bull market that began in 1981 and lasted until 2000 is a good example of how optimism can dominate our emotions. By 1999 high double-digit returns were considered normal. Expectations were equally high. After almost 20 years of 18% annualized returns, it should not have been surprising that a decade of 0% returns

was about to begin. Ironically, the mood of investors in the early '80s was not much different than today's.

For those of you who are old enough, I would ask you to go back to 1981 and consider the investing environment. Interest rates were soaring into double-digits while inflation rates were near 10%. We were still adjusting to the energy crisis that led to the belief the price of oil would exceed \$100 per barrel. It did, but not until 2008, about 25 years later. What followed was the greatest bull market ever recorded. The entire world marketplace enjoyed unprecedented increases in equity values.

Who would have forecast residential real estate would increase in value by about five times its normal real growth rate and then collapse?

Who would have forecast a decade when the major market indexes would show total returns of 0% annualized?

I would guess there is someone who may have made those forecasts. However, who would have believed them?

I confess I would not. I believed the market, after almost 20 years of annual returns averaging more than 18%, was not

*If you can keep your head when all about you
Are losing theirs and blaming it on you;
If you can trust yourself when all men doubt you,
But make allowance for their doubting too:
If you can wait and not be tired by waiting,
...
If you can dream---and not make dreams your master;
If you can think---and not make thoughts your aim,
If you can meet with Triumph and Disaster
And treat those two impostors just the same
...
Yours is the Earth and everything that's in it!*

Excerpt of "If-" by Rudyard Kipling

Thinking back to 1981, who would have forecast a great bull market that produced annualized returns in excess of 18% through 1999?

Although perplexing, there seem to be two constants. The first is: the unexpected is what we should expect. And conversely, what we expect is likely to be partly wrong.

Now let's go back to the euphoric year of 1999 and ask ourselves the following questions:

Who would have forecast short-term interest rates to be nearly 0% by 2009?

sustainable. However, stock market returns equal to about 1% annualized from 2000 to date still surprise me.

We are witnessing a time when realism is reasserting itself. Nowhere is it more apparent than it is in governments at the federal, state and local level. The process of reducing spending and budget deficits to sustainable levels is only beginning. The important point is it has begun. The question still to be answered is: How long will the process take to get spending and revenues to be in equilibrium?



Again it is my opinion the process has begun. It is and will continue to be "painful." The reality is there is not enough money to pay for all government programs. Nor is it likely the economy and tax receipts can grow enough to pay for all current commitments. The only reasonable solution is to make hard decisions about how funds are to be spent. The reality is cuts in spending will be required for many years.

While we have not yet seen significant cuts in U.S. government spending, I think it would be a mistake to believe that cuts and reduced spending automatically mean the economy as a whole will not grow. Since the recession ended in 2009, in spite of high unemployment rates, a depressed housing market, and a lackluster improvement in the economy, corporate profits improved by 45%. Furthermore, there have been recent signs that the sluggish U.S. recovery is gaining some momentum.

Although there will be continued market volatility as investors react/overreact to news, and there will be changes in sector/

corporate performance due to shifts in the U.S. budget and corporations' ability to adapt, we feel confident in our investment strategies and process. We carefully assess business fundamentals, such as strong balance sheets and consistent earnings over time, and monitor the environments in which corporations are operating.

Our philosophy at Curran Investment Management has always been: diversified portfolios of high quality corporate stocks provide the highest returns with the least risk.



Tom

TOM CURRAN
President

CHANGES TO OUR TEAM

Effective December 31, 2011, Chip Prestigiacoimo will be retiring.

As most of you know, Chip has been a trusted member of our team since November 2000; first at Wachovia Securities and subsequently with Curran Investment Management. Chip played an integral role in establishing a solid foundation for our company. Though the years, he has proved to be a valuable asset as both Operations Manager and, most recently, as Relationship Manager.

In anticipation of Chip's retirement, we have hired Jim Troyan, a Certified Financial Planner (CFP®), as a Relationship Manager.

Jim earned degrees from St. Bonaventure University (Mathematics) and University at Albany/SUNY (English). After forays into computer software development and teaching at the high school and college levels, he moved into financial services, where he has been for the past fifteen years. At his second position in financial services, Jim was at the firm for a total of twelve years, initially focused on financial planning, portfolio design and implementation, but also became heavily involved in operations and technology.

After eight years, the firm was sold to a local bank. The original staff was gradually eliminated, though until the final decision was made to assimilate all of the clients into the pre-existing bank platforms, the operation was continued as a separate business unit. For the final eighteen months, Jim had the experience of running a financial planning and investment management business on his own.

PLEASE JOIN ME IN WELCOMING JIM TO OUR TEAM AND WISHING CHIP A HAPPY AND HEALTHY RETIREMENT!

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