CURRAN INVESTMENT MANAGEMENT
DEFINING QUALITY®

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As I look ahead to the next few years, I believe there are enormous opportunities for investors to reap above average returns in the equity markets. As I have said repeatedly since November of 2008, history tells us stock markets are likely to record above average returns over the next ten years. In spite of lack luster growth in the economy and a stubbornly high unemployment rate, the stock market was about 90% higher at year end 2010 than it was in March 2009 when the S&P 500 recorded its bear market low.

Our message was stated clearly in early 2009: Get Ready for a Bull Run.

As we have said numerous times, secular bull markets begin after major declines that excessively punish investors. There have been four major declines dating from about 1875. The best known is the Great Depression. In all four previous declines, major long-term bull markets developed that rewarded long-term investors with above average returns. The ensuing bull markets lasted more than ten years.

Unfortunately, most investors lack the confidence to participate. The total and complete demoralization that results in long and major declines causes investors to find safer havens to avoid the risk in holding equities. It is only in the later stages of a great bull market when investors gain the confidence to buy.

> "Only time will tell, but the market is telling us the future is brighter than the prevailing pessimistic view."

The most recent great bull market began about 1981 and lasted until the tech and Internet bubble burst in 2000. Most investors avoided stocks until the mid 1990's. By then the bull market had become more speculative. Ironically, confidence is greatest when the risk is greatest. History tells us the best time to invest is when confidence levels are low following years of disappointment. History is telling us now is a wonderful time to invest in the equity markets.

What should we expect from the economy and the markets in 2011?

The people will continue to save and invest more while the government will continue to spend.

The Government will continue to exhort the people to spend in order to stimulate the economy. The Federal Reserve will keep interest rates low to encourage borrowing. But growth in the economy will be moderated by voters who are becoming more financially responsible. The people are adjusting to economic realties and making sacrifices.

Government's reaction to the financial crisis has been focused on short-term stimulus measures. Nothing done to date will create sustainable growth rates which must be built upon savings and investment. Little is said about investment. Most of the talk is about consumption. Spending and consumption, without savings and investment, are not sustainable strategies to grow the economy and provide more jobs for the people. Unfortunately, the primary gauge Washington has used in the past and is still using today is to judge the health of the economy based on spending at the malls.

If we are to reduce our budget and trade deficits, we must increase our savings and investment. Otherwise we will never be able free ourselves of our dependency on China and others to finance our deficits.

The really good news is our savings rate has been rising over the past four years and is now almost six percent of income. Only a few years ago the savings rate was less than zero. Enabled by the real estate bubble, people were encouraged to borrow at ridiculously low interest rates and to spend the money on "things."

Today, people have grown thriftier while Washington is still placing too much emphasis on spending and not enough on saving and investment. Although the measures taken by Washington have been helpful and were necessary to keep the economy from falling into a 1930's depression, Washington is still behaving as though the solution to our excessive spending and borrowing can be cured with more spending and borrowing.

Washington has not yet addressed the long-term challenges the economy faces. The people have and are demonstrating a new fiscal integrity that requires spending less and saving and investing more. Washington needs to do the same. Pessimists argue the people will go back to their old habits and Washington will continue to spend and borrow. I believe otherwise. Washington will reduce spending while encouraging long-term growth, and the people will continue practicing thrift.

Only time will tell, but the market is telling us the future is brighter than the prevailing pessimistic view.

If I am right, the new bull market will be apparent to most investors only after their confidence is rebuilt. By then the bull market will be clearly in place, and only then will the investing public regain the confidence they need to buy stocks. Our hope is our clients will remain fully invested according to their asset allocations. It is the only way we know to reap the long-term benefits from investing in equities.

If you believe as we do, this is a wonderful time to be buying the best companies in the world. Many are selling today at lower prices than they did as many as 10-15 years ago. Their earnings may be higher, and their balance sheets are generally stronger.

Our definition of best requires a company to have low debt, a high return on equity and consistent net earnings growth over the previous ten years. Our requirements are simple to understand, but extremely difficult to achieve. Very few companies have records of performing at the levels we require. Approximately 400 companies meet our stringent requirement for purchase. We are only interested in the best because our research shows that the best perform best over the long run. S&P corroborates our research.

Our advice to our investors remains the same: Be optimistic about equities and be cautious about bonds.

OUR CORE STRATEGY

We continue to recommend the purchase of high quality equities. Curran restates we are very negative regarding the outlook for all long duration fixed income securities. We recommend fixed income investors continue to hold lower yielding short-term securities because we believe inflation risk is too high to buy longer term bonds that are paying insufficiently higher interest rates.

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