



## Defining Quality<sup>®</sup>

### **EXPECT CONTINUING SHOCKS LIKE THOSE EXPERIENCED IN GREECE TO DISRUPT MARKETS**

Curran Investment Management believed markets had been expecting bad news from Greece for months. We were surprised by market volatility considering the advanced notice about Greece's problems.

Troubling news from Portugal, Spain and Ireland is adding to the turmoil. Now we know the EU is prepared to take positive action. As a result markets should be more subdued, when and if, the next of the weakest falls. The weakest are collectively known as PIGS (Portugal, Ireland, Greece, Spain).

The next of the problems in the financial markets that must be addressed are poor fiscal conditions in state and local governments in the USA. Like Greece, the hoped for and likely response, will someday soon be anxiously awaited by investors. Washington will "bail out" the states but anxiety will prevail until the action is prescribed and acted on by Congress.

Curran expects one or more states to require help from Washington before the crisis is "officially" declared to be over. The President and Congress are demonstrating denial of the problem by their lack of action regarding debt and spending problems facing too many of the states. Washington has not been forthcoming in addressing its own fiscal woes and, as a result, is powerless to respond and lead by example in regard to state and local government.

Curran continues to be aggressively bullish in the face of continuing fiscal crises arising throughout the world. The success of bail outs executed so far should give investors confidence our current predicament will be resolved favorably and to the benefit of investors.

We are positive mainly because we feel prudent policies will result from the multiple crises facing the world. There are signs nations are hunkering down. Portugal has taken steps to reduce their budget deficits. Ireland has taken severe steps to reduce their deficits to include cutting public spending by 7.5% of GDP. Greece had no choice but to agree to draconian cuts in their spending.

Most people I speak to are not optimistic. There will be no quick fix. Investors' patience has been and will continue to be pushed to the limit. As a result cash will be directed to "safe" investments like government bonds each time another panic inducing announcement is made.

In spite of all the bad news the markets have been remarkably resilient. Our advice continues to be: Stay the course.

We do expect continuing shocks to the market caused by "non stop" announcements of government insolvencies throughout the United States and the world over the next few years. It is likely the "scars" left by the crisis and its aftershocks will have a lasting impact on investor

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psyches. In other words we will come to understand our ancestor's aversion to risk learned from experiences around the Great Depression.

It is of paramount importance for all investors to understand investment returns during the Great Depression were quite good beginning about 1932. The DJIA low in 1932 was 40.56. By 1937 the recorded high was 195.59. The increase was 4.82 times in approximately five years.

The 1930s were terrible years in our history but the facts show it was not a bad time to be invested. The bad time to be invested was ironically the Roaring 20s.

Curran Investment Management believes the period following the Financial Crisis of 2008-2009 will also prove to be a good time to be invested. Like the 1930s, it most likely will be a miserable time in our economy. However, like the 1930s Curran believes it will prove to be the beginning of a great bull run in the equity markets.

At the same time we urge caution for investors in fixed income. Curran continues to believe part of the solution to the world's debt crisis will be inflation. The world has enjoyed almost 30 years of disinflation. The result is lessons learned in the 1970s and early 80s about inflation have either been forgotten or were never learned. Keep in mind adults in their 50s today were too young to know much about the pain inflation inflicts.

As a result investors in fixed income are probably too confident and over invested in fixed income. At the same time they are too skeptical about equities.

Trend followers follow their "Pied Piper" until it is too late. Some things never change.

Tom

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