



I've learned that when a man with money meets a man with experience, the man with the experience ends up with the money and the man with the money ends up with the experience.

~ 59-year olds discovery.

The first and most important piece of information we want to convey is: Curran Investment Management is very optimistic about the outlook for corporate profits and the stock market in the United States.

The strong growth in profits of U.S. nonfinancial corporations has been driven by several factors, which we expect to continue this year and next: higher productivity; fewer workers producing goods and services; low borrowing costs; less borrowing; and overseas sales by U.S. multinationals, aided by the weak dollar.

VIEWS SEPTEMBER/OCTOBER 2011

BY THOMAS CURRAN

I think it is very important to highlight this good news now because it is impossible to write about the economy and the equity markets without conveying some negative thoughts.

We believe the economic challenges and periods of market volatility we are experiencing are to be expected, and they will likely continue for at least a few more years. This volatility in the markets is making it increasingly difficult for investors to cope. Over the years, in times following crises, market participants have been said to climb a "wall of worry." Indeed this is a time when the "wall of worry" seems a bit higher than we would all like to see it.

Since the market crisis low in March of 2009, the primary causes for concern have been focused on sovereign debt questions in the Eurozone and the sluggish recovery in the United States, particularly in housing and unemployment. Lately, debt-related issues in Europe are raising questions about the solvency of major European banks.

To address government fiscal responsibility, elected bodies throughout the developed world are now seriously engaged in discussions to reduce spending. With deleveraging worldwide in its early stages, troubling concerns are not likely to be resolved in the short term.

Considering the scope of the debt problems facing the developed world's economies, should we not expect years of ongoing problems before the imbalances can reasonably be addressed? We believe the only reasonable answer is yes. We must expect years of adjustment before excessive consumption fueled by enormous accumulations of debt can be neutralized. To

believe otherwise seems to us to be foolish.

In the U.S., the Great Recession and financial crisis was rooted in too much debt and solvency issues on the part of banks and households. While these sectors have made significant progress in the last few years, the U.S. government has assumed even more debt to stabilize the economy. Now the challenge is manifesting itself in the U.S. government's ability to reduce its budget deficit in the face of weak economic activity.

In the past, spending our way out of economic malaise was the prescription. The antidote for not spending was to stimulate the economy to spend more. When more spending could not be forced from the economy, increased borrowing by both the public and private sectors worked fine. It worked fine until serious questions arose about the accumulation of debt.

Our huge debt service obligation makes it very unlikely that new programs and spending can be part of the cure. Tax increases are not the solution. Only cuts in current spending seem likely. Unfortunately, neither increasing taxes nor cutting spending would be wise in a weak economy. The dilemma is that none of the traditional solutions to stimulating the economy are working today.

Until the government creates a credible long-term debt/deficit reduction strategy, markets are likely to experience periods of volatility. The conventional wisdom is that there will either be another U.S. recession or there will be a less robust recovery. Our belief is that the recovery will continue to be lackluster, and that at least two more years of extraordinary efforts by Washington will be needed to stabilize the economy before a solid recovery is apparent.



Although it will take time for the government to show improvement, we are focused on the good news: corporate, bank and household balance sheets have been strengthening since the recession and financial crisis.

Households have been reducing their debt, and gains in the stock market over the last few years have more than offset declines in real estate wealth. The personal savings rate is 5%, up from about 2% in 2005-2007. At U.S. banks, particularly big banks, risk-adjusted capital ratios have been improving and there have been several quarters of profits, primarily because of a reduction in funds set aside to cover future loan losses. U.S. nonfinancial corporations' net worth has been strengthening as higher asset growth, including cash accumulations, has outpaced increases in corporate bond issuance. Corporations have been taking advantage of very low interest rates and investor interest in bonds from creditworthy issuers.

For those who measure improvement by the unemployment rate and budget deficit, life is not likely to get better any time soon. For those choosing the positives, such as strong corporate profits, and who stick to their long-term investment strategy and stay the course during periods of volatility, they are likely to reap the benefits of the opportunities we see developing in the equity markets.



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NEW ADDITIONS TO OUR TEAM

Curran is pleased to welcome Deborah M. Lyttle and Catherine A. Groden to our team.

Deborah, having joined Curran earlier this year as a Senior Research Analyst, has recently become a member of the Investment Committee.

A graduate of Barnard College, Columbia University, Deborah has financial services experience from The Federal Reserve Bank of New York, where she earned *The President's Award for Excellence*; from Citicorp, where she provided portfolio, strategic, systems and economic analyses for the Chairman and Management Committee; and from a private investment management firm, where she evaluated new investment opportunities for portfolios and business purposes.

As Investment Advisory Assistant, Cathy works with our team of professionals to provide customer account maintenance and operational support.

A graduate of the University of Dayton in Ohio, Cathy earned her MBA from the E. Philip Saunders College of Business at Rochester Institute of Technology. She began her financial services career in Rochester, NY in 1985 as Operations Manager for Burgess & Leith/Advest. She later held a major role in the growth of Brighton Securities, a locally owned full service financial securities firm. She recently relocated to the Capital Region where she resides with her husband.

**PLEASE JOIN ME IN WELCOMING
BOTH DEBORAH AND CATHY TO OUR TEAM!**