Courier Capital Corporation

Market Review & Update

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Happy Spring! For the last few weeks the equity markets have been flirting with new historic highs. The S&P 500 have visited this level on a couple other occasion, 2007 and 2000. Perhaps this is one of the reasons that certain media can often leverage these commonalities into a conclusion that we have arrived at the same place. But how "same" is it??? Let's peek at this from several aspects to see whether this is a journey, or a destination…

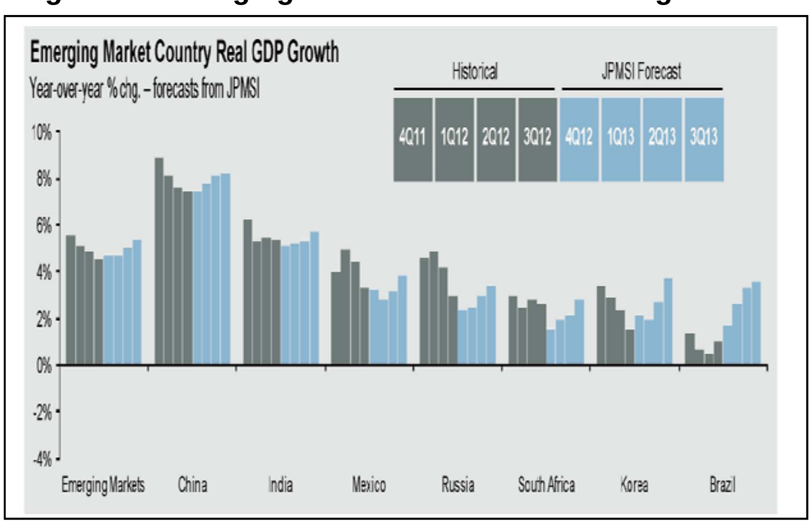
Before you assume we're off on a Panglossian expedition (brief aside-Dr. Pangloss was the central character in Candide, a great book written in the 1700's by Voltaire, a favorite author who is often credited with being the father of invective and sarcasm. The book's humor is sharply contemporary, and it's only a little more than 100 pages or I'd never recommend it! Think of it as the worlds' first sitcom. My favorite gift may be a t-shirt emblazoned with "sarcasm, the other service I provide", hence my affinity for Voltaire) let's take a quite literal peek at the comparative statistics associated with these three periods (see Figure 1). The data couldn't be more telling. Today's P/E ratio is pretty much signaling a relative "half-off" sale and the interest rate, unemployment and inflation metrics all suggest that, with so much room for improvement vis a vis 2000 and 2007, as several veteran market watchers have opined, we could very well be at the beginning of a trend, rather than at its apex. Even Alan Greenspan recently weighed in. After poignantly noting that markets were displaying an "irrational exuberance" as we approached 2000, today he is definitely not seeing any exuberant behavior in equity markets.

Figure 1: Comparing 3 Visits to the S&P's "all time highs"

YEAR	2013	2007	2000
EARNINGS	102	82	56
P/E	14	25	30
10 YR	1.95	5	6.5
FED	0.14	5.02	6.2
INFL	0.17	2.3	3
UNEMPL	8(+)	5	4
CORP $$	28.60%	18.70%	14.5
GDP	1.?-2	5	6

So, valuations and fundamental metrics are on the side of continued improvement. What about global economic concerns??? Although it's relatively unimportant, there's time for some Greek humor(yes, I know it's Cyprus, but over 75% of Cyprus is Greek Orthodox, it's the home to Mt. Olympus, the home of the Greek gods, and, the Cypriots refer to Greece as "the other Greece"…). The Cypriots are attempting to create a big mess in such silly ways. Guys, never announce you're going to steal 10% of all bank depositors' accounts BEFORE you decide to close the banks and BEFORE you recall that about $30 billion of that money are in accounts of the Russian government… Needless to say, the Cyprus financial minister was in Russia over the weekend to "discuss" a more appropriate bailout financ-

Figure 2: Emerging Growth Rates Rebounding



ing initiative. For the purpose of honoring Voltaire, let's call this their Big Fat Greek Vetting… On to significant global matters. The big dog in the room for more than a decade has been the emerging markets, namely China, India, et al. The only real impact that mattered was whether everything else was significant enough to slow them down in a lasting way. The data in figure 2 shows fairly robust accelerations for those regions, and we should note here that there is a coincidental (or NOT!) projection for the US economic indicators to show an improvement as we move through 2013.

It should be noted, after many consecutive quarters of impressive earnings acceleration, that the first quarter of 2013 may not astound to the same degree, as there was an actual lull in growth last quarter, both here and where those big dogs lie (no puns intended). Domestically, GDP was recently recalculated to a less than stunning .4% for the fourth quarter of 2012, leading us to that conclusion that a less than robust earnings follow-up should not be seen as a surprise. In contrast and partially as a response, thereto, infrastructure investments overseas and a surprising improvement in the housing market domestically are manifesting the underpinnings of the improving economic and earnings assumptions for the remainder of this year, and beyond. Households and businesses have cleansed their balance sheets and are prepped for more expenditures that are often the result of increasing confidence in improving metrics. Additionally, the Fed has committed to remain in a stimulus posture until unemployment nears 6.5% (see figure 3). Again, all these metrics manifest an environment that seems to have more of preparatory feel, than the final act of this 4 year play. It has also been noted that the potential for the robust gas and oil opportunities discovered nationwide have the capacity to develop into multi-million job openings. This could have a secular impact on the elongation of a typical recovery cycle.

Figure 3: Care to Fight the Fed?

When Will the Unemployment Rate Hit 6.5%?

Participation Rate	Average Monthly Job Growth (000's)				
	100	150	175	200	250
62.6	never	Oct-2013	Oct-2013	Sep-2013	Aug-2013
62.8	never	Dec-2013	Nov-2013	Oct-2013	Aug-2013
63.0	never	Jun-2014	Dec-2013	Nov-2013	Sep-2013
63.2	never	May-2015	Jul-2014	Feb-2014	Oct-2013
63.4	never	Apr-2016	Feb-2015	Jul-2014	Jan-2014
63.6	never	Apr-2017	Sep-2015	Dec-2014	Apr-2014
63.8	never	Apr-2018	Apr-2016	May-2015	Jul-2014
64.0	never	May-2019	Nov-2016	Oct-2015	Nov-2014
64.2	never	Jul-2020	Jul-2017	Apr-2016	Feb-2015
64.4	never	Sep-2021	Feb-2018	Sep-2016	May-2015
64.6	never	Dec-2022	Oct-2018	Feb-2017	Sep-2015
64.8	never	Apr-2024	Jun-2019	Aug-2017	Dec-2015
65.0	never	Oct-2025	Feb-2020	Jan-2018	Mar-2016

Note: For a given participation rate and average monthly job growth, the table approximates the month and year the unemployment rate will hit 6.5%
Source: Bureau of Labor Statistics, Morgan Stanley Research

And now for one of those times when sounding repetitive is just fine. We have oft stated how it is Courier's focus to continue its commitment to investing in the best technology and human resources for our clients' benefit. I'm very pleased to introduce Jason Stronz to those of you that have not yet been introduced. Jason is joining us as a senior member of our Jamestown office from his previous position as Executive Director of the Jamestown Renaissance Corporation where he was intimately involved with the community and its urban design and revitalization plans. Prior to that, Jason worked out of the area in various collegiate athletic administration positions. He holds an MBA from Lake Erie College and is very active with many local community organizations. We're very fortunate to have Jason on our team and hope you have the opportunity to meet him.

Back to the world for a moment. Unlike Dr. Pangloss, we need not find El Dorado to conclude that this environment seems to be on the threshold of improvement. As we have stated many times, this recovery has moved forward in the face of much challenging global and domestic hyperbole, not because of a wondrous discovery, but simply because today got a bit better than the day before. The first quarter exhibited signs of strength not witnessed since 1996. Of particular note is that there has never been a negative year for the equity market when the equity market return in the first quarter of the year exceeds 8%. And while a near term rest for the equity markets would neither surprise nor alarm, we see a continuing longer-term momentum.

In a fitting analogy upon which to close, once the snow subsides, we look forward to the green shoots of Spring… (that may mean next time we'll dredge up some quotes form Chauncey Gardener…)

We'll talk to you soon…