# Courier Capital Corporation

## Market Review & Update

SUMMER 2012

INVESTMENT COUNSEL

Bruce Kaz

Randy Ordines

William Gurney

Thomas Hanlon

Edwin Miner

Alan Abels

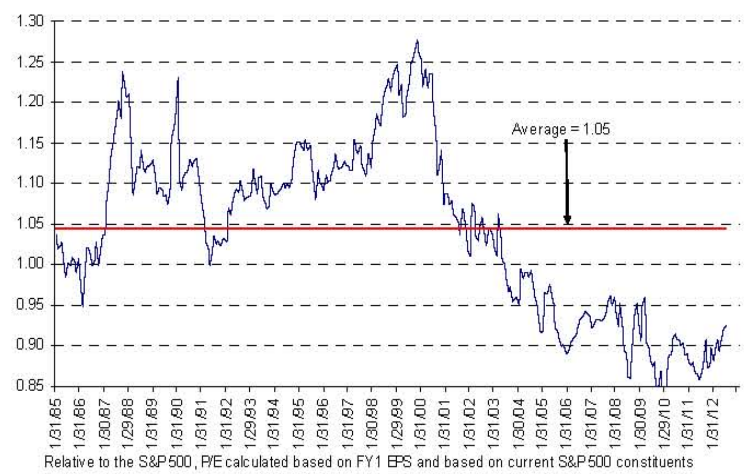
Jery Chambers

1114 Delaware Avenue
Buffalo, NY 14209
Phone (716) 883-9595
Toll Free: 1-800-783-1086

214 West Fifth Street
Jamestown, NY 14701
Phone: (716) 484-2402
Toll Free: 1-877-484-2402

This has been a struggle. Tedium is a struggle. "Kicking the can down the road" ad infinitum is at best tedious. In the US, inadequate response to incenting companies to spend money to stimulate employment and housing insures our sluggish growth momentum for the time being. And the Euro zone continues to argue over how little sacrifice will get them all that they want. Don't regard any of this with a political leaning, as the intent is to clearly say that at this moment in time, all politicians are striving to suck. We can either curse a lot or make jokes; albeit tempting, we'll stick to humor lest we get diagnosed with Tourette's. Although, it would flow so lyrically, like when Deuce Bigelow empathetically takes the girl with Tourette's to a baseball game, so her profane explosions can for the first time, feel right at home…. Even the venerable and often boring Economist magazine has taken to humor at this point, as manifested in their view that what it would truly take for a lasting solution to the Euro problems sounding like an ironic insult "What's needed sounds like a bad joke: French reform, German extravagance and Italian political maturity." They long ago gave up on Greece, but let's remember that the last effective Greek leader was played by Kirk Douglas in an epic cinematic experience. And that brings us back to the US. Where is Spartacus when you need him?! Strong leadership can accomplish extraordinary things. Unfortunately, or fortunately depending on the situation, this environment has created one too many opportunities for George Will to eloquently remind us how our forefathers created a system of checks and balances to protect us from ourselves, grinding to a dead halt whenever the extraordinary is attempted. Obviously, they erred on the pessimistic side with regard to what extraordinaries we might attempt… Alan Simpson and Erskine Bowles delivered the extraordinary, a user manual for strong leadership. And while Alan Simpson may not be fetching in a gladiator outfit, their recommendations were the shining path. And true to character our courageous representatives ran from that report as fast as their weak knees would carry them, grinding the extraordinary to an embarrassing halt.

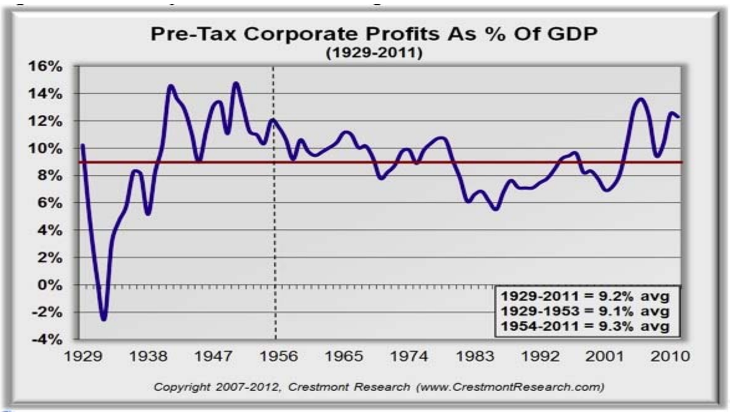
**Figure 1: Relative P/E of the Largest 25 S&P Companies**




Source: FactSet and Citi Research – U.S. Equity Strategy

And now let's take a refreshing break by taking a peak at the real world for a while. While the aforementioned has created a fear based environment that has bonds trading at all time low yields, while stocks trade at 40 year low valuations (see Figure 1), a continuation of the positive momentum that began over 3 years ago tells a different tale. We are just completing the most recent release of corporate earnings and the mirror image of tedium refreshingly occurred, for a reassuringly 14th time. Over 70% of companies exceeded analysts' estimates. S&P 500 component corporations have achieved record profits (see Figure 2), enabling record earnings and piling up record cash coffers. And markets are clearly yet tentatively recognizing this positive undercurrent as we nudge back toward 4+ year highs. In addition to compelling valuations (remember the dividend yield of the S&P 500 is now nearly 125% that of the 10 year Treasury!!!), better news from the ECB pledging to do whatever it takes for Europe, coupled with better than expected growth numbers out of China, created just a bit more opti-

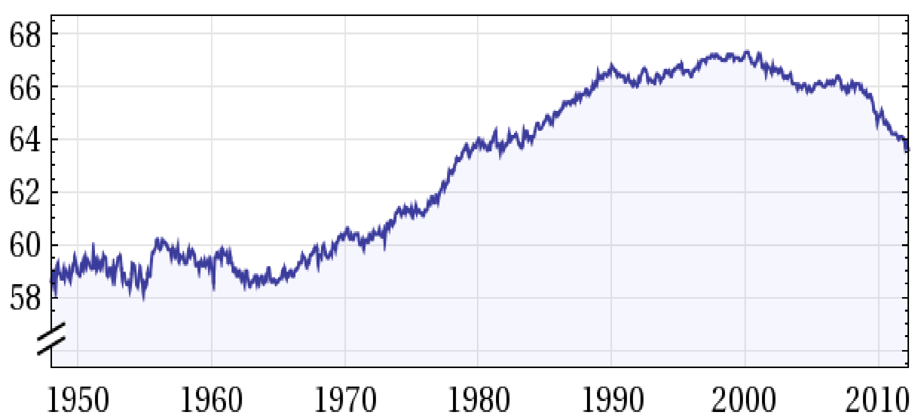
**Figure 2:**




mism than existed the day before. And don't underestimate China, for now. If they wish to raise their growth rate, there is little doubt they will be successful, or risk the wrath of a restive populace. They have all the world's money and will spend it to accomplish their goals. But don't feel too insecure about China's relative economic prowess, they'll get all fat and happy sooner than you think. They are aging fast due to the one baby per family history and we delivered unto them at least 3700 KFC's, so the Westernized version of the Sodom & Gomorrah train is heading down their track…

In every recovery, not just some but all, it is not some magic governmental wand that accomplishes positive momentum. It's us. The first and most critical step in that process lies in the corporate cash hoard previously referenced above. Companies start to spend as they become more confident. When they spend they eventually spend some of that on hiring, those hired then spend money, and that cascades into more corporate spending, continuing a spiral that eventually results in a vibrant housing market. Let's peek at the hiring component for a moment. Government data places the US unemployment rate at about 8.2%, which is a bit of a fib. There is this funny little number called the Labor Participation Rate which looks at the entire pool of those eligible to work and divines what percentage have simply given up. The participation rate is currently hovering around 63%, this is a not too surprising 30 year low. Back that into unemployment and the true rate can be north of 12%. Getting those companies to spend that cash is not a more difficult trick than getting you and I to spend more. Make us feel better about tomorrow. Provide greater regulatory and tax certainty so we can plan. Then move over, the rest just happens.

**Figure 3: U.S. Labor Participation Rate**




Source: Wolframalpha

Performance has been positive yet unsteady. 2012 began with the strongest Q1 in 25 years, followed by a miserable May/June only to experience the best July in, coincidentally, 25 years. Warren Buffett has recently said the greatest risk is now cash and Jeremy Siegel made the cover of Barron's with his prediction for a 15000 Dow (and in the body of the article assigned a 30% probability to the Dow hitting 17000 based on his valuation work at Wharton that relies on over 140 years of data). Pessimism in this environment has not been limited to retail investors, as more that 70% of professional managers have underperformed their benchmarks, primarily due to being too pessimistic and defensive. In this regard we feel blessed. Sit back and turn down the TV volume for the next 100 or so days, as we are about to witness a record $2billion+ spent on election smack-talk. And absent the usual list of exogeny, the remainder of the year should evidence more positive momentum as some confidence measures will improve if, for no other reason, than additional global stimulus is a virtual certainty. The rest will simply be up to us.

Enjoy the rest of Summer, we'll talk to you soon.