Courier Capital Corporation

Market Review & Update

SUMMER 2008

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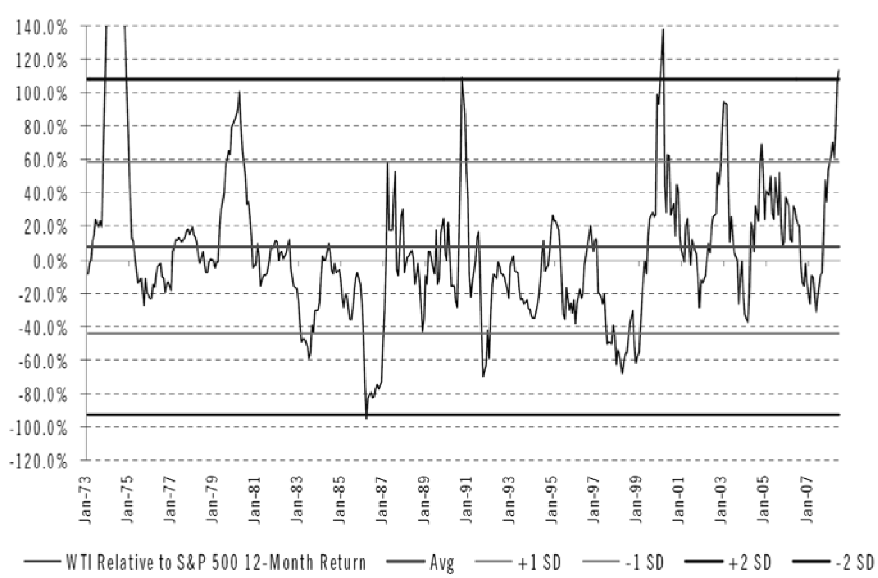
We've reached the middle of 2008 in the wake of some continued volatility. Most well regarded experts, including Ben Bernanke and the Fed, are confident that we are in the latter innings of the credit related problems that had sub-prime mortgages as the underlying catalyst. Some additional uncertainty was delivered by oil in the form of its impact on prices on many products and services. Inflation is now substituting its uncertainty where the credit conundrum left off. As we have often noted, markets don't really care for uncertainty. The manifestation of this was a rather predictable re-test of the 1st quarter's lows. Market bottoms typically re-test several times before a consensus develops that results in all negative sentiment on the left half of the balance beam. Where will we likely head from here? Let's take a more detailed look at the current environment, the persistence of current trends, and some errata to garner a clearer view of the horizon.

THE GLOBAL ECONOMY

The aforementioned "well regarded experts", notably led by Mr. Bernanke, have forecasted a rebound in economic activity in the 2nd half of this year. To date, the economy has delivered more robust metrics than anticipated or advertised. 1st quarter GDP was again adjusted upward to a 1% rate of growth, not stellar, but growth nevertheless. Current data points to a fairly consistent level of growth this quarter, with some early signs of enhancements bubbling up. While no actual recession has manifested, it's not a surprise that the consumer has been the focal point for the pain. Higher prices at the pump, coupled with commodity intensive food product price increases has had both a real, and more importantly, a psychological impact on the average consumer. In a rare moment of empathy, let us note that the consumer is also a wage earner. We have noted for several years the economic impact of global growth. The great news is that global growth is still robust, with world GDP now at about 4.5%, well above-average and still being driven by the strength of the BRIC nations. The benefits for us have been lower prices for cheap imports and more buyers overseas for our products & services. But every ying has its yang in the symbiotic ebb and flow of a theoretically free market. The yang in this case was the simultaneous exportation of wage deflation. With a robust pool of eager and, more significantly, cheaper labor abroad there has been little ability for much of the U.S. labor pool to offset inflation in the traditional manner, asking for a raise. So, little surprise that to the average family, this environment feels much worse than, on a more all-encompassing basis, it truly is. But as the Fed Chairman recently testified before Congress, he sees overall economic activity rising this quarter and expects a recovery to continue well into 2009.

COMMODITIES and CURRENCIES

Figure 1. Oil vs. S&P 500 Performance



Source: Global Financial Data and CIR – U.S. Equity Strategy

Let's talk about oil for a moment. First an aside, do you know why energy hasn't had a disastrous impact on the US economy? Currently, our economy is less than half as sensitive to the price of oil as it was 40 years ago. Global demand aside, the chatter and activity around the energy futures pits has an increasing air of a bubble to it, much like real estate in Florida, Las Vegas or California, or technology in the late

90's, or heck, tulip bulbs in the 17th Century. "It will rise indefinitely, it's the only way to make money, we'll die without it"... Human nature does have its consistencies. This is in addition to a dollar that is not likely to remain at its current valuation relative to major currencies, some demand destruction underway (and yes, supply creation too), and some cards are being dealt that could create unanticipated changes in vector of this trend. Additionally, demand destruction has begun in countries like China that heavily subsidize oil to their populace, and are now beginning to lower those subsidies to get their consumers to conserve and to spend less on the subsidy as well. There is room on the horizon for energy price trends to change, and some other commodities are set to move in tandem. In these types of emotional periods you see much talk full of feeling and opinions, yet devoid of substance and fact. Figure 1 shows the relationship between oil prices and the S&P 500. You will note that now, as in a handful of previous periods, oil has reached a 2 standard deviation differential to the S&P. You will also note that in every period that oil has reached that level, it has been quickly followed by a significant change in direction for the commodity and for the equity market. Fact versus feeling, a continuous tug of war.

As to those consumers, did you know that May delivered to them the largest gain in after-tax wages in 33 years??? Stimulus checks began to arrive and spending has begun a trend increase in reaction that could continue for months as additional checks that total more than $100 billion hit the mails. A bright spot. Could consumer confidence also rebound as economic fundamentals improve in the second half? Seems inevitable.

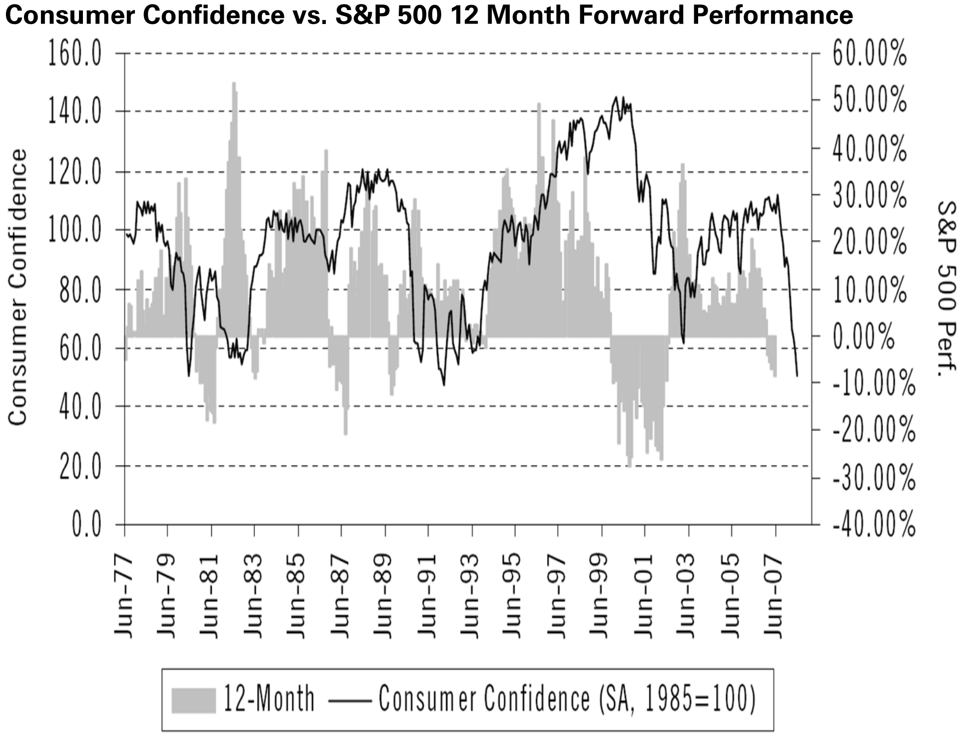
THE MARKETS and VALUATION

Much of what we have discussed in past quarters is still in place. We continue to have a strong foundation of global growth and core inflation remains tame. The yield curve has steepened, which will inevitably help financial concerns earn their way out of trouble. The low dollar continues to be a catalyst for overseas sales. By most measures, stocks are the bargain asset class and foretell a near absolute probability of a double digit 12 month return using historical yardsticks, while Treasuries have become expensive manifesting a negative real return which is often a sign that pessimism has overstepped its bounds. These models include forward earnings, implied growth rates, price:earnings ratios and consumer confidence. The graph (Figure 2) of the consumer confidence index is instructive. The index has dipped below 55 on a handful of occasions over the past few decades. It should be noted that in 100% of those occurrences, the next 12 months have manifested significant market appreciation.

There are a few key points that we need to keep in the forefront. Markets simply rise. Wars, eras of double-digit inflation (remember WIN buttons?), Great (and not so great) Depressions and every permutation of human and inhuman occurrence have merely been temporal impediments that have tried to inhibit the tidal wave of the growth of humanity and its markets. As long as humanity is growing, markets will inevitably grow as the literal manifestation of our muddled activity. Uncertainty merely causes periods of weakness that have always created opportunity. Welcome to opportunity! Doesn't feel like a party yet, does it? I wonder if you can recall how investors felt in the first few months of 2002? I'll remind you, it was a moment of universal yuk. Remember the free market ying yang thing? The moment everyone has accepted the notion of "yuk" the only yang on the table is opportunity. From early 2002 to November of 2007 the market rose nearly 90%. But keep this a secret, there isn't a willing audience, yet...

We'll talk to you soon.

Figure 2. Consumer Confidence vs. S&P 500 12 Month Forward Performance



Source: Citi Investment Research – US Equity Strategy and Haver Analytics

P.S. While editing the final draft of this issue, oil has experienced the largest one week price decline in history, the dollar has moved up a tad and, in response to that and some good corporate results, the market has rebounded over 500 points...