Courier Capital Corporation

Market Review & Update

SUMMER 2009

INVESTMENT COUNSEL

Bruce Kaz

Randy Ordines

William Gurney

Thomas Hanlon

Alan Abels

Edwin Miner

Matt Davis

David Bard

Jery Chambers

Frank Leonard

976 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

"It's human nature to move to excess…"

While it would be easy to attribute this quote to the infamous Roman Emperor Caligula, as his reign marked the height of Roman excesses nearly 2000 years ago, it was actually Warren Buffet that recently restated the obvious. Odd that something so obvious in history so stealthily repeats itself with such consistent aplomb. A few notables include the Tulip Bulb Mania in the early 1600's where a single bulb could trade for the price of a ship! Did you know at that time there was a market for the trading of corporate stock, but it was actually the manic desire for the ultimate tulip that was the catalyst for the creation of the first option futures contract??? More recently we have witnessed a stock valuation bubble in the 90's and its mirror image contraction in the early part of the new millennia. This was followed by a lemming like surge into real estate and even more highly leveraged financial deals as historically low interest rates provided the fuel for human nature to regurgitate. Funny, the most recent cover of Barron's highlights the Harvard and Yale endowments. It was approximately two years ago that the managers of these vaulted pools of assets we anointed this millennia's emperors of investing as they placed outsized commitments presciently into alternative asset classes. This Barron's cover was a more literal comparison to Caligula, however. It deals with the dire straits of both endowments as the massive declines in alternative assets have resulted in financial stresses where none existed in the past, endangering the very ivy it blossomed. Human nature…

Ok, so he tells us cute, attention grabbing stories, what's the point? Fluffy summer reading for the beach?! We think not. We are inevitably going to repeat some things and we should note what some significant catalysts will likely be so we can hopefully divine the fine lines that separate rebound from repeat…

The nascent global recovery we are now witnessing will be affected by literally everything, but some will clearly be more impactful.

Perturbations are both good and bad, as they are simply the result of adding energy to a closed system. Which ones are we curious about? Obviously, the big trends to watch will be those of the stock and bond markets. As we discussed in our last writing (Figure 1) after all similar periods to the one we have just experienced, the equity market has recovered to a new high. Not sometimes, always. It will be important to follow the valuation trend as this occurs to see that the price investors are willing

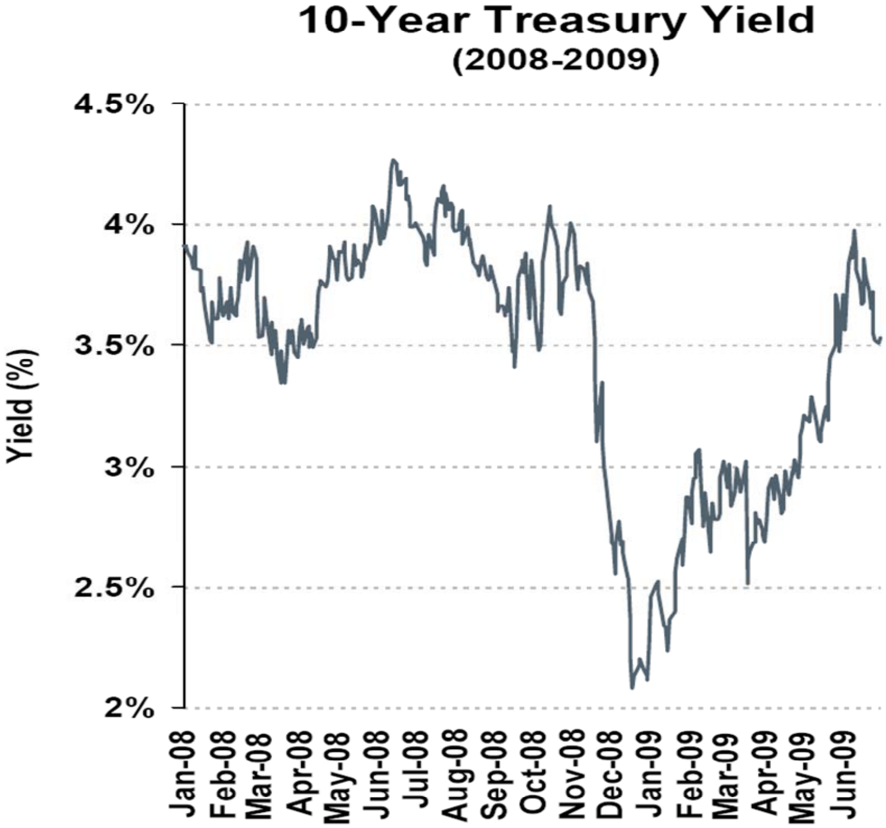
Figure 1. Historical Bull Market recoveries—we like the market

Trough	Peak	Annualized Returns	Cumulative Returns
06/01/32	03/06/37	35%	324%
04/28/42	05/29/46	26%	158%
06/13/49	08/02/56	20%	267%
10/22/57	12/12/61	16%	86%
06/26/62	02/09/66	18%	80%
10/07/66	11/29/68	20%	48%
05/26/70	01/11/73	23%	74%
10/03/74	11/28/80	14%	126%
08/12/82	08/25/87	27%	229%
12/04/87	07/16/90	21%	65%
10/11/90	03/24/00	19%	417%
10/09/02	10/09/07	15%	101%
Bull Market Average		21%	164%

Source: Citigroup

to pay for a dollar of growth does not become "floral". The treasury market trend is now one of dual importance. First, it is arguable that US Government Bonds were recently in bubble territory, driven primarily to that level by the excess of fear (Figure 2). The unwinding of that bubble has been, so far, orderly and we will want to see that order continue. Secondly, the level those treasuries seek will ultimately dictate the velocity and mass of this recovery. The cost of borrowing is controlled by the bond market and if rates rise unproductively it can provide a drag on future business activity.

Figure 2. 10 Year US Treasury yields



Source: Haver Analytics, Federal Reserve Board, FMRco (MARE)

Likewise, commodity prices can be a help or a hindrance. The drop in oil prices have provided the biggest potential stimulus to our recovery and too high a price for this key commodity can quickly raise the cost of business and daily life, diverting cash from business activity.

Inexorably linked to the aforementioned trends and perhaps the direct result of their confluence, inflation should be watched closely, both near term and for the 3-5 year period ahead. As we have previously discussed, it has been the goal of the Fed and its counterparts worldwide to rekindle the forces of greed to a productive level. But, like most other things, if you chuck a lot of kindling on the pile you often get surprised by the volume and intensity of the resulting heat. And kindling they have chucked, at a level never witnessed by humankind. Would it be a surprise if the result was an equally impressive perturbation? And just as Glenda queried Dorothy, the focus is whether it will be a good witch, or a bad witch.

Of course, the disruption can and often does come from a unique and unanticipated catalyst, but the aforementioned elephants are in the room and it is an oft repeated axiom "if you break it, you own it"...

We'll talk to you soon...enjoy the summer...

Goodbye to a Friend—In Memoriam: Francis Leonard

A stoic gentleman, dear friend and Chairman Emeritus of Courier Capital has passed away. We have had the privilege of knowing Frank for a long time. We shared a common trait of sparse verbal communication, yet we did talk at length everyday, under those circumstances I'm not quite sure how we ever pulled that off. I never really thought about it in that light before, but it may be why we never had a disagreement, funny...(he'd laugh at that one too...we always saved some of those sparse words for sarcasm). He bore his long illness in the stubbornly quiet, noble manner he faced all things personal.

Frank was a very intelligent man, sensitive to all that surrounded him, although you'd need to pry that out of him. These characteristics enabled his success in this business, both as an investor and as the kind of person you wanted to work alongside. This latter trait attracted the area's top professionals and that grew Courier into the largest private asset management company in Western New York. The people Frank worked with are all so very much like him, stubbornly ethical, annoyingly bright and hardworking to a fault. When you think about it, that's really the measure of any human, what we collect around us as we go through life. Frank's co-workers, family and his many friends all share so many of these characteristics, quite an admirable collection. And, perhaps the most poignant metric of the man is that we have never heard one of these people ever say a negative thing about him. And, we should point out that for most of them, verbal communication is anything but sparse...(and yes, he'd laugh at that one too...). Thanks for the privilege Frank.