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Market Review & Update

WINTER 2012

30 Years & 2 Blocks Later…

We hinted in our last newsletter that we may move after 30 years in the former headquarters of AAA of WNY. Well, we did it! We moved two blocks down the street into what was originally a private home that, for decades, served as the business offices for the Episcopal Diocese. They were admirable stewards in the preservation of a great Buffalo architectural treasure and we hope to carry on the tradition with equal dedication.

Figure 1: Our New Home

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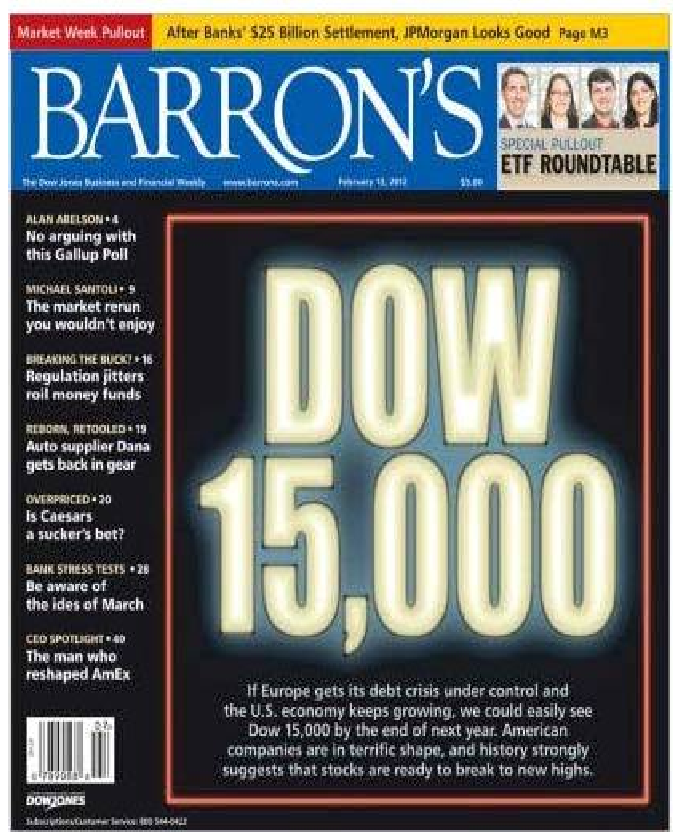
Gorilla in the Midst…

Sorry for the bad pun, but since 2009 we have postulated that we were in a strong global economic rebound. The 800 pound gorilla was, and is, corporate earnings and we are now in the midst of the first earnings release period of 2012. I'm so very pleased to redundantly announce that this earnings period is continuing a 3 year trend of earnings exceeding analysts' estimates! Over 60% of S&P 500 component companies reporting have surpassed expectations. This momentum has battled fears of a US double dip, a Euro zone cataclysm that would drag the world into an economic abyss and all the hyperbole that politicians and prognosticators could muster, and continued uninterrupted. In 2009, we ran some numbers that we then chose not to disclose. Examining the 11 most significant recessionary periods, including the Great Depression, we extrapolated the metrics of recovery to get a sense of where the then nascent trend could take the markets. Since Barron's was kind enough to blab to the world over this past weekend (fig 2) we feel it appropriate to now share those findings. If this recovery followed average recovery patterns, and avoid unanticipated exogenous events, the Dow Jones Industrial Average should arrive by the end of this expansion in a range between 16,000 and 19,000. The Barrons article was written after a similar analysis, partially based on the body of research of Jeremy Siegel, the noted Wharton economist we regularly quote. They found, as is obvious from the front cover of the latest issue, that the Dow could reach 15,000 in the next 24 months, and could ultimately rise to 17,000 in this cycle. Obviously, we take some comfort in the fact that our conclusions both fell in the

Figure 2: Barron's Recent Issue


Market Week Pullout | After Banks' $25 Billion Settlement, JPMorgan Looks Good Page M3

BARRON'S

SPECIAL PULLOUT
ETF ROUNDTABLE

ALAN ABELSON • 4
No arguing with this Gallup Poll

MICHAEL SANTOLI • 9
The market rerun you wouldn't enjoy

BREAKING THE BUCK? • 16
Regulation jitters roil money funds

REBORN, RETOOLED • 19
Auto supplier Dana gets back in gear

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Is Caesars a sucker's bet?

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Be aware of the ides of March

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The man who reshaped AmEx

DOW 15,000

If Europe gets its debt crisis under control and the U.S. economy keeps growing, we could easily see Dow 15,000 by the end of next year. American companies are in terrific shape, and history strongly suggests that stocks are ready to break to new highs.

DOW JONES

same range. Why are they just now willing to write the story after nearly 3 years trend evolvement? For the very reason we cited in our last writing: Euro zone fears would ease, and they are (even China has offered to make helpful investments there just this week), the US would continue to strengthen, albeit less quickly than we would like, and it is. And most important, that the easing of these fears would simultaneously increase confidence in the public sector that would cause more confident investment and eventually lead to an expansion in p/e ratios off their 40 year lows. The latter may have just begun as we continue a strong price appreciation that began with the strongest January in many years. As confidence grows, people become willing to pay more for the promise of to-morrow, and that is exactly what a p/e ratio measures. Since this expansion began the S&P has doubled, but earnings have far exceeded that growth and markets eventually catch up to fundamentals, growth in confidence is that key element to take us ahead.

More positive public analysis, like that recent Barron's cover, will enable the recent positive market catalysts that brought about the strongest January since 1987. The first month of the year has an enviable track record of show-ing the way forward for the remainder of the year. Since 1950, the January barometer has correctly charted the course for the year 89% of the time. This will continue to be a quarter to quarter exercise of monitoring the strength of corporate earnings, but for now, the trend is your friend and every central banker in the world is on your side.

Fun with math & other oxymorons…

After a somewhat lackluster 2011, where the aforementioned strong earnings growth failed to manifest in market growth, due to the aforementioned fears, we all deserve a little humor. Especially if we can do it at the govern-ment's expense! When the credit crises hit full stride in 2008, the government went on a spending spree intended to foster "governmental job creation". In case you were wondering, THAT is the other oxymoron… Governments do very few things very well, very few. Remember, if at this point you doubt, remember that these are the folks that just by talking got the United States downgraded. Wanna know just how ineffective they can be at times? Time for "fun with math"!!!

Figure 3: Stimulus Since Late 2008

<u>4,400,000,000,000 </u>(ADDITION TO FEDERAL DEBT "STIMULUS") =
250,000,000 (us Population-adults)

17,600 ($ per individual)

As you can see, since the initiation of the credit crises, the government has spent/added to US debt approximately $4.4 trillion. If we divide that money by the approximate adult population of the US we get a sum of $17,600 for every adult living human. Impressed by the avalanche of "governmental job creation"??? Nah, me either… Lets imagine for a moment what would have happened if we were each simply given checks for $17,600. It would have unleashed a torrent of economic activity resulting in new demand for goods, resulting in new businesses that re-sult in new jobs. That may be instructive this election cycle, if you'd like to help us, do so by staying as much out of the way as possible, we'll do just fine…

We'll talk to you soon…