Courier Capital Corporation

Market Review & Update

W I N T E R   2 0 0 8

INVESTMENT COUNSEL

Frank Leonard

Bruce Kaz

Randy Ordines

William Gurney

Thomas Hanlon

Bill Davis

Jery Chambers

Alan Abels

Edwin Miner

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

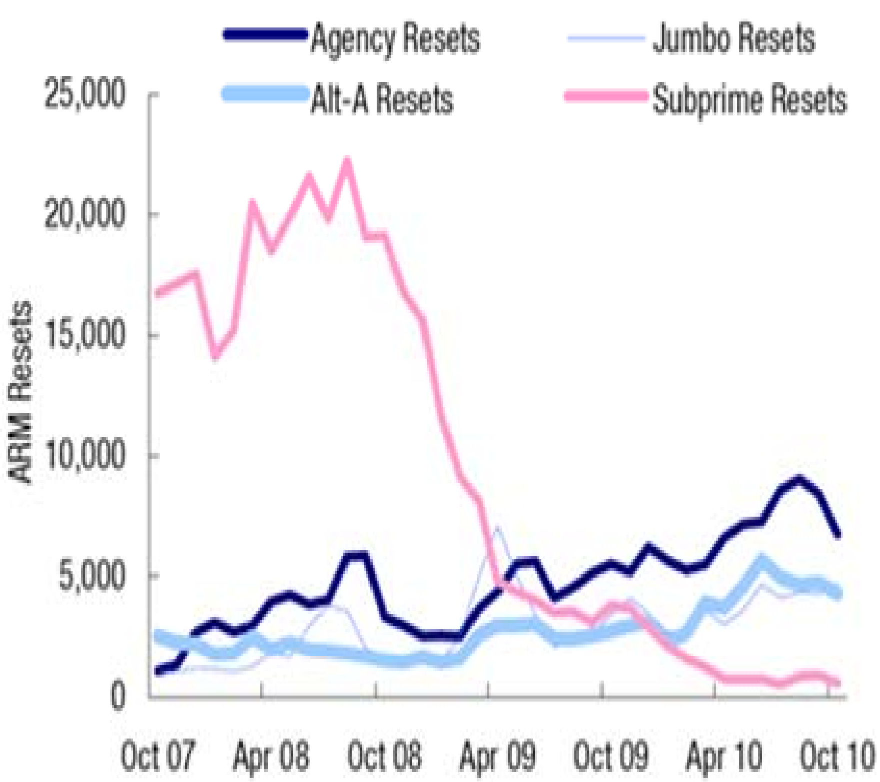
214 West Fifth Street
Jamestown, NY 14701
Phone: (716) 484-2402
Toll Free: 1-877-484-2402

In honor of another positive year in the markets we thought it would be appropriate to establish The Performance Enhancing Substances Awards for 2007!!! The votes have been tabulated and much to our surprise and I'm sure to yours, there will not even be an honorable mention for anabolic steroids or human growth hormone. And sports? Neither baseball nor even the exalted Olympics are a blip on the radar screen of indecent attempts to gain an advantage over the competition! The runner-ups for 2007 are Sub-Prime Mortgages! Yes folks, the exotic mortgages that tempted buyers to buy more, at deceptive teaser rates, were nearly the most abusive performance enhancing substance in a very competitive year. Millions of innocents driven to the slaughter. And yet, that pales in comparison to the 2007 Grand Slam Winner! It's not so hard to scam an innocent, to cloud the average person with 17 pages of fine print. But when you are clever enough to package all those rickety mortgages into gift wrapped CDOs (collateralized debt obligations) stamp a AAA rating on them and peddle them to some of the most "sophisticated" (aka-"really smart" just ask them, they tell you so!) debt & hedge fund managers in the world, then, my friend, you have really accomplished something! Yes, the runaway winner for the 2007 attempt at peddling performance enhancing substances goes to the investment banking hustlers that gift-wrapped CDOs and passed them around faster than a cold on the first day of nursery school. Kudos! This accomplishment obliterated many hedge funds, cracked the reputation of many bank & brokerage CEO's, and nearly shuttered credit desks worldwide. Take that Barry Bonds...

Innovation, whether financial or genetic, is inevitably a very Darwinian process. Alter something with the intent on improvement and the jungle will tell you if you have succeeded or failed. Welcome to the near extinction of easy sub-prime loans, of thinly veiled CDO's and of the "really smart" individuals that sought their feigned super power.

This clearly claimed the attention of the markets and clouded over what was otherwise a pretty interesting year from a more positive perspective. If we can part the clouds of hyperbole for a moment, perhaps we can catch a glimpse of the rest of reality...

Figure 1. Subprime problem diminishes throughout 2008

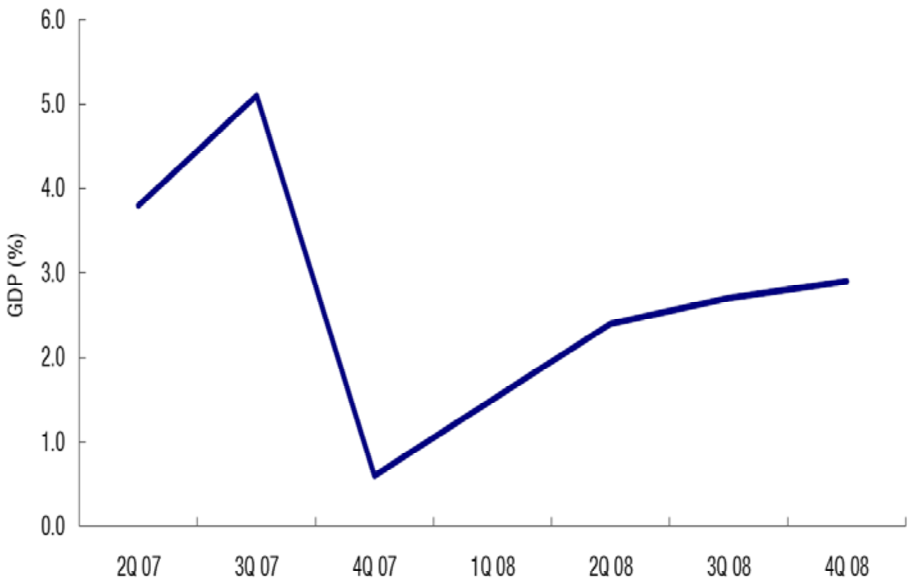


Sources: CPR and CDR Technologies, and Citi.

Let's start with the culprit. The sub-prime problem, like most others, is finite. The market now knows this (see Fig 1). What was a debacle for the finance industry will become an opportunity for investors as the problem ebbs and financial stocks stage a broad recovery. The excitement of all this created an interestingly volatile period, which since July 1st has treated investors to no less than 50 days of more than 100 point moves in the Dow Industrial Average. This trend is likely to continue but will turn increasing positive as financials begin to improve in 2008.

It is worth noting some facts which reminds me of the quote my car affirms daily "objects in the rear view mirror may be larger than they appear". While everyone watched Financial Darwinism evolve, the U.S. economy grew at least 1% in every single quarter for 16 consecutive quarters(see Fig 2), the 4th longest period since the Bureau of Labor Statistics began keeping score in 1948, while keeping unemployment at near record low levels. And, corporations delivered impressive earnings growth that put 14 quarters of back to back double digit performance together.

Figure 2. Outlook for US Economic Growth in 2008



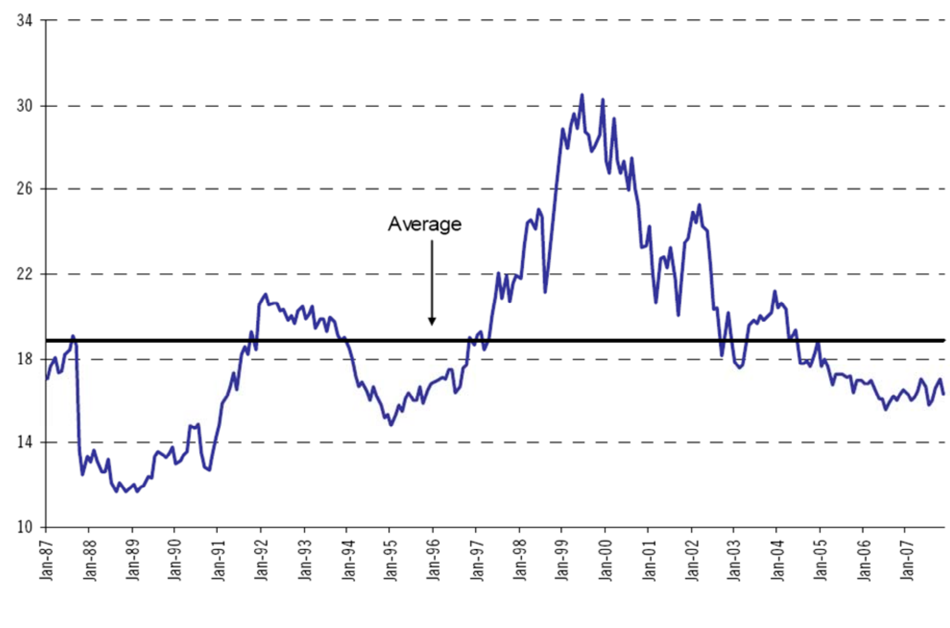
Source: Citi.

This is stellar performance from both the economy & corporate America. Clearly, global growth has helped to keep this momentum positive in an environment that, absent such a catalyst, may have been mortally wounded by the aforementioned evolutionary impact of the financial Darwinists predictable extinction. And, corporate earnings growth was in excess of the market's growth, which once again leaves us on the doorstep of 2008 with reasonable valuations as measured by price earnings ratios. When earnings rise more than the market, a dollar's worth of earnings mathematically goes down in price. (see Fig 3).

2008 will indeed be a fascinating year to watch unfold as an interesting set of dynamics will be vying for dominance in the financial jungle. First in line will be the 300 lb. gorilla of global growth. Can it still maintain a sufficient momentum to override the negative impacts of remaining sub-prime flotsam and jetsam. Will the Fed take rates down enough to re-stimulate buyers enough to come back to the housing market? And will election hyperbole hurt or help as 2008 unfolds?

So far, the data is suggesting that global forces will indeed help the US economy narrowly avoid the negative impacts of significant recessionary forces occasioned by the weak housing sector, as foretold by the 3rd qtr 4.9% GDP report (see Fig 2, again...). While a slowing is anticipated, so is a rebound and the timing of the various interrelated influences will be everything. Inflationary concerns, that may be the only hurdle that would keep the Fed from lowering interest rates to the anticipated 3% neighborhood, seem timid at this juncture. And, as silly as they can often seem, politicians during an election year have a fairly good record (17 out of 25) of delivering a positive market result. Well, ok, they don't really deliver anything, but they are most excellent at saying they did. Reasonable valuations, a sub-prime mess on the doorstep of healing, a pessimistic environment that may have over-reacted to the negative, coupled with a supportive Fed and we may have the makings for a positive surprise in 2008. It should be noted that in the past twenty years, whenever the price/earnings ratio of the market is below 17.5 (it is now around 16), the next twelve months has always been positive.

Figure 3. Price/Earnings valuation metrics show stocks are inexpensive



Source: Haver Analytics and Citi Investment Research — U.S. Equity Strategy

And while wishing you the very best for 2008, let us appropriately leave you with one of the wisest quotes on the topic of risk, hyperbole and market psychology, (and on these topics either a great leader well ahead of his time, or simply a reminder that the nature of what is human never really changes) "There are more things that frighten us than injure us, and we suffer more in imagination than in reality". (Seneca)

We will talk with you soon.