Courier Capital Corporation

Market Review & Update

WINTER 2010

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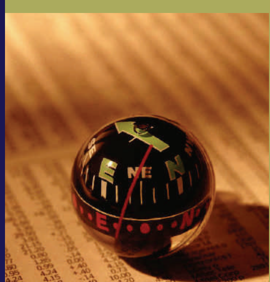

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Welcome to 2010! And for the recovery that began in Q3 ’09, so far so good…

In past issues, we have opined that recoveries, despite varied causation, share very similar healing patterns. Historical returns in periods of recovery always last for years and produce powerful results. It seems important to compare from where we have come with what we should expect to see, to make certain this will not be the one recovery in twelve that proves to be an anomaly.

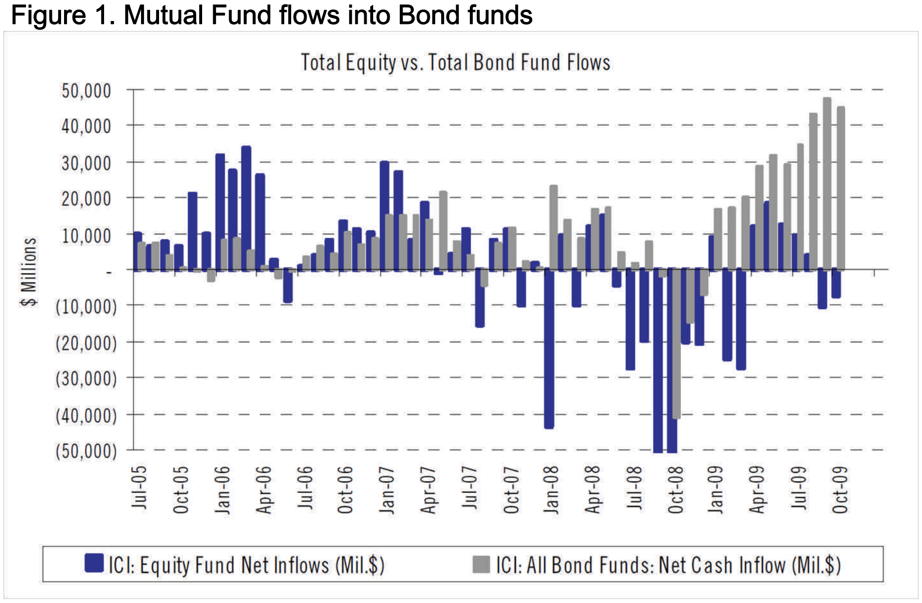
In each of these periods, whatever caused the disruption to business, expense reduction via unemployment was the obvious first step to healing. And, we have clearly seen that.

Since then, what have we seen as confirmation that a typical recovery in underway? Corporate earnings surprised positively in the 3rd Qtr, based largely on the aforementioned cost cutting. Over 75% of companies reporting exceeded expectations by a wide margin. We also witnessed an increase in housing prices and the volume of house sales, along with a reflation in many other asset prices. Unemployment also remained stagnant/steady with a subtle rise in part time employment. Consumers actually spent more money than analysts’ anticipated; a reflection that even seasoned professionals allowed their opinions to swing too far to the negative. Again, very typical.

Additionally, we have witnessed the beginnings of true organic business growth, a feature of all recoveries and also a reaction to the record levels of global stimuli.

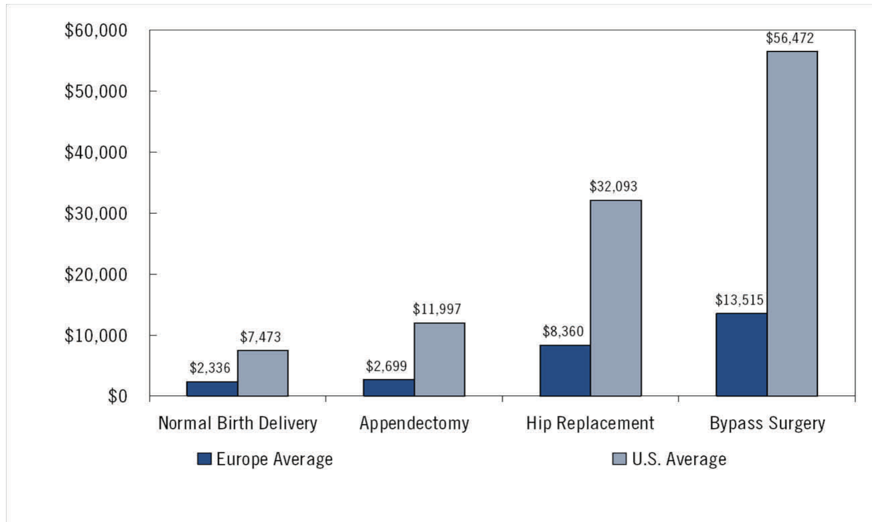
Ok, so much for what has happened. What will we need to see to know we are still on a normal healing trajectory? First, we are about to begin the 1st earnings season of 2010. Many companies should report a surprisingly vigorous jump in margins and earnings, as that organic growth pushes more dollars through very lean corporate environs. The likelihood is strong as the potential disruptors, interest rates and inflation, remain quite tame and supportive. We will need to expect that the Fed will slowly begin to raise short rates at some point this year. Soon, we should witness an increase in the number of hours workers work, and the number of overtime hours companies are willing to absorb as business growth continues. Several quarters of increased overtime expense will eventually cause companies to begin to hire workers back at some point in 2010, which will add its own stimulative potential to the pot. This is almost assured, regardless of the cost…I say that because 2010 is an election year. The administration and congress are in a state of paranoia about the impact of voters going to the polls with an

Figure 1. Mutual Fund flows into Bond funds



unemployment level of over 10%. They are already considering massive stimulus additions to bring these numbers down well in advance of November, to fend off voter hostility. This can produce an elongated cycle of additional consumption stimulus. Workers called back slowly begin to resuscitate the spending patterns put on hold when they were out of a job. The next step in the job cycle occurs when employment reaches the "full" stage and the worker pool then feels sufficiently confident to demand higher compensation. Wage growth is often considered the "sticky" portion of inflation, as it is the least likely to go away.

Figure 2. Reported Select Hospital & Physician Costs by Procedure

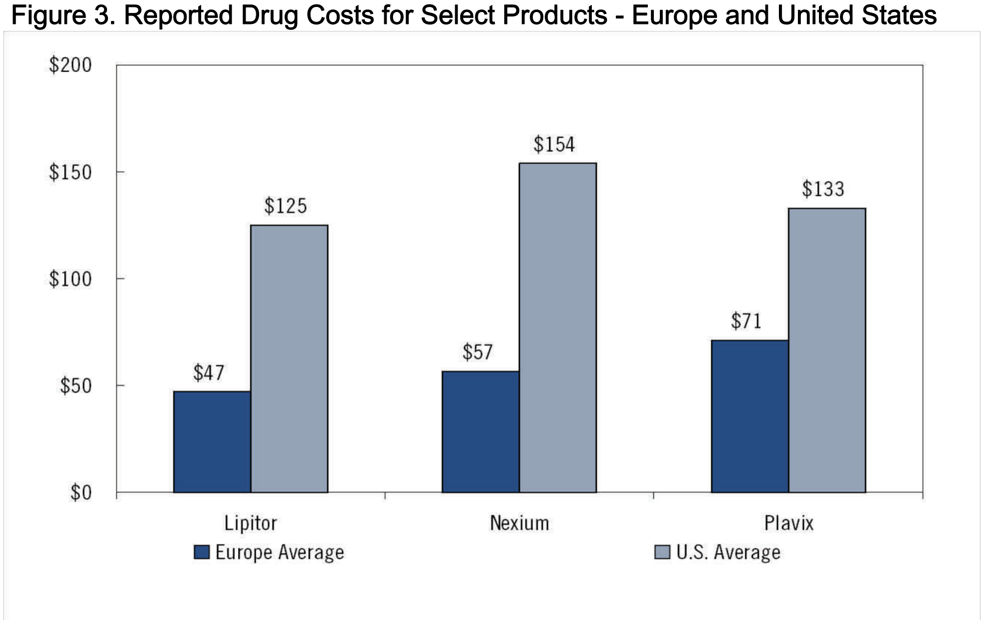


Source: International Federation of Health Plans

We rarely miss an opportunity to pick on the individual investor, and we have a doozy so we can't pass it up. The individual investor is consistently one of the most accurate contrary indicators we have available. Why? They react with emotions, rendering their herd behavior so very reliably flawed. What have they been up to? The chart on page 1 shows retail mutual fund flows. In 2009, individual investors plowed well over $100 billion into bond funds and only a couple billion into equity mutual funds. They inexorably look to be guided by what they see in the rear view mirror and saw the 2008 good bond returns versus bad stock returns and started the stampede. In typical fashion the markets graded their actions by delivering double digit equity returns and near zero returns for government bonds. The latter stages of this recovery will undoubtedly witness the herd clamoring for equity funds as bond returns begin a trend of substandard performance, causing what will likely be the final surge in stock prices for this cycle..

Before we go, we'd be remiss to not at least peek at the largest piece of legislation to be put forward since the creation of the Social Security system, the new health care bill. Will it work? No one knows, but it will be impactful. Why? Healthcare represents nearly 20% of the US economy. Do something revolutionary to 20% of an economy and not surprisingly, big things happen, in a revolutionary way. Let's hope it's good. In order to be good it most certainly needs to address the cost disparities in procedures and pharmaceuticals present here versus abroad (see Figures 2 & 3). And the solution has been drafted by the same individuals that befitted from lobbyists dollars that created those very disparities. It will be fascinating to watch.

Figure 3. Reported Drug Costs for Select Products - Europe and United States



Source: International Federation of Health Plans

So, so far so good… We're in a recovery that has all the earmarks of all previous historical periods, and we have a pretty good idea of what to watch out for to keep it on track. Enjoy the New Year and the positive gifts a global economic resurgence can provide.

We'll talk to you soon…