

Courier Capital Corporation

INVESTMENT COUNSEL

Bruce Kaz

Randy Ordines

William Gurney

Thomas Hanlon

Brian Geary

Edwin Miner

David Bard

Alan Abels



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

Market Review & Update

SUMMER 2011

And then the circus came to town....

We normally get the summer issue out a few weeks earlier, but recent seminal events were too important to the world to miss. The founding fathers of this nation were prescient in their vision that while times may change, human character is a fact that even Darwin may not be able to repair. And so the framers of the constitution drafted an intricate series of checks and balances. The design of this labyrinth was an attempt to assure that the fear and greed that drives mankind would not manifest in drastic actions of an insular minority. In short, suppress drastic by forcing compromise, pushing extreme toward a center of acceptability. We have witnessed perhaps how this process can blindingly display these human character flaws, while perhaps struggling at a time when a bit more drastic was actually a bit more necessary than usual. The debt ceiling clown car pulled into the big top and the world witnessed naked democracy in action. Numerous compromise agreements drafted by the gang of six were taken home to show to the family, and as the founding fathers predicted, the more extreme elements of the right and left rejected anything with the slightest color of accommodation. We were front page news for every global tabloid. Were these brave revolutionaries so fixed in their noble principles that they, as if they were mirroring the heroics of those founding fathers, take the nation nobly down a new path? Nah, the weasels made a deal as usual, using the threat of taking the world's liquidity over the precipice to leverage their desires. Bold & principled? No. A rancid display of fear & greed? You betcha.

On to the more reassuring side of life, we recently began the latest corporate earnings season. Gee, looking for reassurance and purity in the unbridled world of capitalism? Perhaps free markets have a Darwinian purity that politicized democracies lack? One of those loaded questions... As we've noted in what now seems to be an exhausting number of quarters, this is a global recovery manifesting most clearly in the earnings of the S&P 500, as they continue to do strong business overseas. So far, over 70% of the constituent companies have exceeded analyst estimates for both earnings and margins. That's good news. Earnings are growing at about 9.4%, but wait, if we extract Bank of America (yes, just Bank of America) the earnings growth rate for the quarter looks more like 14%.

We have repeatedly discussed that between earnings releases you get news produced by humans and there is often very little goal of reality for that process. It spawned what may well have set a world's best for the regurgitation of hyperbolic metaphor.

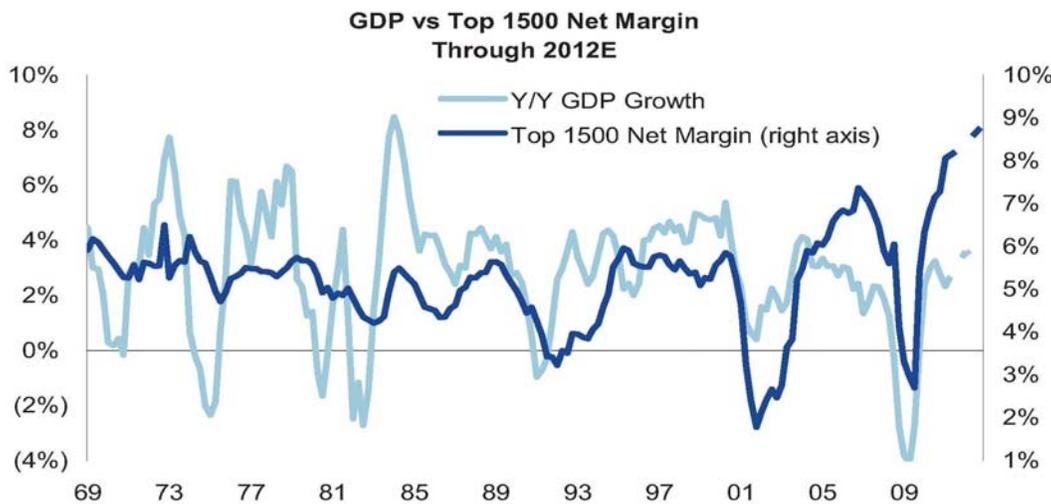
In these 10 short weeks we have: "kicked the can down the road" several thousand times, referring to the politicization of serious economic discussions and by doing so, merely pushing a solution further into the future. Kick it long enough and it morphed into the more dour and impactful "pushing a snowball down the hill", where the destructive entropy of potential energy gets set free by inaction. "Black Swans" landed all over the place! This cast a pall on "the pigs" (Portugal, Ireland, Greece & Spain). And as we neared the final act of the "Greek Tragedy" the "Black Swan" took flight and "Cigno

Nero” came down to rest on Lake Como, pointing to both the significance of Italy’s forward economic woes, while simultaneously demonstrating just how quick a legislative body can enact serious austerity measures when willing to stare at grim reality and act appropriately. If our administration was too distracted because of the need to attend campaign fundraisers to notice, it took about 72 hours. Really guys?! Italy, yes Italy, gets it done in 72 hours, please take note...

Back to reality. US GDP hit a growth trough last quarter, dipping below 2%, which is much too slow to spur material job creation. However, even slightly muted comments by Fed Chairman Bernanke signaled that higher growth was likely in coming quarters. As we noted in our last writing, that trough may well have been exacerbated by Japan’s tsunami-related business interruptions and its rebound may well be boosted by that very same event. We will want to carefully monitor this trend to be certain that it is a correctable domestic troughing and not the first inkling of something more broad, more global. Clearly, the cascading efforts on budget, taxation and stimulus need to focus on making tomorrow a more certain place for individuals and for business. Tomorrow is what we really all invest in, the historic levels of cash that companies and families have accumulated will be spent on growth when they have a more certain view of the future.

The global economy, porcine influencers notwithstanding is still where all the action is. China recently confirmed a growth rate in excess of 9.5%, India is north of 8%, et al... And, no coincidence, that’s where earnings are happening as that’s where business is happening. S&P 500 earnings will likely surpass \$98 per share in 2011 and \$105 in 2012. (see chart below) Please note that both represent new all-time historic highs for earnings. Positive ISM surprises clearly achieve their momentum from these trends.

Global Growth vs. Domestic Softness



Source: Factset, Morgan Stanley Research

Domestically, it is worth noting that, in spite of unemployment levels and persistent weakness in the housing market that the US consumer is manifesting surprising resilience on the spending side. One factor that may have gone largely unnoticed amidst metaphoric hyperbole is that fuel prices dropped a bit. That is all the more significant when you realize that a one penny move downward at the pump places an additional \$1billion in the pockets of consumers for non-energy related discretionary spending. As we

have repeated, this is a recovery led by corporate earnings, so it will be critical to monitor the continuation of this trend that is nearing three years in duration. Let’s end the serious part of the sermon with a rhetorical question. In an environment of multi-decade low valuations for stocks, coupled with record high valuations for bonds, amidst rising historic levels of liquidity & earnings of historic proportions, driven by the sheer mass of the emerging global consumer, don’t you find it difficult to succumb to a fog of distracting negativity???

We’ll talk to you soon...

Statements of fact have been obtained from sources considered to be reliable, but no representation is made by this firm as to their completeness or accuracy. This firm or persons associated with it may own or have a position in any of the securities or investments mentioned, which position may change at any time, and may from time to time, sell or buy such securities or investments. No opinions expressed herein, should be construed as an offer to sell or a solicitation of an offer to acquire any securities or other investments mentioned herein.