Commentary

The stock market surged during the second quarter of 2009, as all major market averages showed gains. The surge in the market was fueled largely by a reaffirmation of China's growth, higher commodity and energy prices, and an overall sense that the economy is showing improvement. We have come back from the abyss! Or have we? We are still 20-25% off market highs, when looking back at trailing 52 week averages. However, as encouraging as the quarter's performance was, the end of June and into early July was marked by a selloff as investors got jittery over the second quarter earnings prospects and of the overall scope of the recovery.

While the markets have begun to recover, some have raised the question: Are we merely seeing a bull market rally in a bear market? There are arguments to support both sides. However, we believe that the main ingredient in getting back to a "normal" economy of 2-3% GDP growth is to get the consumer spending again, and we just do not see it at present. Consumer spending accounts for 65-70% of GDP. So long as consumers save and pay off debt instead of spending, consumer spending will continue to be anemic, and consumer confidence will still lag.

Data continue to suggest that the pace of the economy's slide is slowing, and further reports from the Federal Reserve Chairman indicate a probable recovery in the second half of this year. We have not seen the impact of the federal stimulus money, which is predicted to start flowing in the third quarter and continue well into 2010. To date, most of the government intervention and aid money has been used to help ailing banks bolster their balance sheets. But federal stimulus money alone will not be sufficient to right our economic problems. Reports on second quarter earnings, due out in mid to late July, probably will not be great, but the third and subsequent quarters promise more encouraging results, with the help of productivity gains, cost cutting, and the effects of the federal stimulus monies flowing into the rebounding economy.

We witnessed a number of companies issuing secondary offerings (i.e., raising cash by issuing additional shares of stock). These secondary offerings sold out quickly and often did not affect their stocks' short term performance. While this is dilutive in nature and could affect downstream earnings per share, it is nonetheless indicative of strong demand from investors looking to get back into the market at decent valuations.

With the record amount of stimulus to be injected into the economy, we will likely see an inflationary threat, be it in the long or short term. We plan to make sure portfolios are positioned to take advantage of that scenario. That being said, we continue to be bullish on commodities, especially oil. Demand for hydrocarbons may have waned in recent months, but the world's appetite for and dependence on oil and natural gas will certainly continue until alternatives become commercially viable. Agriculture and base commodities such as coal and copper will also be helpful to hedge in inflationary periods.

We still believe that the current market conditions present a buying opportunity for equities. However, we will be careful and not get ahead of ourselves!

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