Commentary

The bulls came back to Wall Street in September, and their arrival made the third quarter of 2010 a very nice one for many investors. Stocks soared in July, tanked in August and rebounded spectacularly in September, ultimately making Q3 2010 the best quarter on Wall Street in a year.

The theme that played out in the first and second quarters of 2010 is largely intact here; stocks are cheap, liquidity is great, earnings have been strong, inflation is not in sight, and the overall economic environment supports a higher market.

Economists pronounced in September that we have been out of the official recession for over a year, however, we could be in a low growth and high unemployment environment for some time. The news is getting "less bad", not quite "good", but nonetheless, less bad! A recent string of reports supported that we will not fall into a double dip recession. The reports highlighted better than expected general economic and manufacturing data, and that earnings have been robust to the point where people are hopeful that companies might crank up hiring. We need employment and consumer spending to pick up to support higher economic growth rates.

Housing continues to be anemic, even in an environment where mortgage rates are at historic lows. There has been a spurt in refinancing existing mortgages, leading us to hope that some of that money will fuel the economy.

The Federal Reserve is doing what it can to prevent a double dip recession and to spur new growth. The Fed has the ability to support their current low interest rate environment, and it is largely expected that they will start buying Treasuries again in the fourth quarter in an attempt to help keep interest rates at their current level or push them even lower.

Another impetus for the recent rally may be that investors are anticipating more business-friendly government policies as a result of the November 2nd elections. It is certainly true that the elections will have a large impact on government policy, but at this stage it is highly unpredictable what those policies will be. The reality is that the stock market will have to deal with major uncertainties surrounding fiscal policy until after the election.

So, we think that equities are looking good, if not opportunistic! Either the economy will pick up by itself and show improvement in the next three months, or the Fed will step in and allow more quantitative easing (i.e. buying Treasuries to support lower rates), and then all areas will pick up. In both scenarios, stocks should benefit.

You may have noticed some changes within the portfolios during the last quarter, as we have rotated out some non-performers and added some issues we feel are better suited for growth. The time horizon for owning issues has traditionally been and will continue to be long term focused, however, there may be some short term themes to explore. The dynamics of a recovering economy and the pace of the market have changed, so we need to be nimble in order to take advantage of both long and short term opportunities, while at the same time balancing risk/reward in the portfolios.

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