TW Advisors

Newsletter
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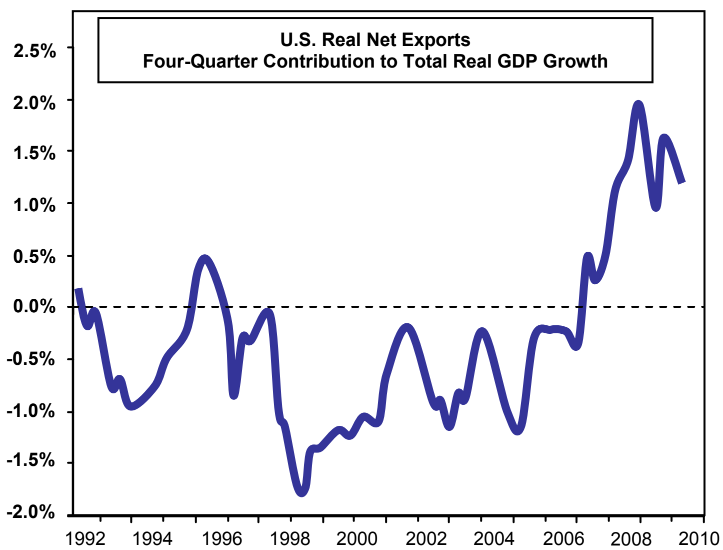
We'll Get By with a Little Help from our Friends BEATLES

The markets' mostly uninterrupted rise from the depths of March 2009 was "remarkable". So far the economy's response and subsequent recovery has been in most cases "not so much". Although we are in a statistical recovery, the biggest concern remains a lack of job creation. In addition, monetary actions by Government officials have created excess liquidity that may have "bubbled" stock prices beyond the likely pace of economic recovery.

Compared to past recession recoveries our upturn has been relatively weak. Because this recession was accompanied by too much debt, it is likely to recover more slowly and over a longer period of time. While in previous recoveries we had the benefit of utilizing financial stimulus to encourage financial institutions to lend, the weakness in the financial sector itself has stymied that measure as a tool. More simply, the unwillingness and the inability of financial institutions to lend may slow the recovery process.



THE HOPE

Unlike some past recoveries **we are operating in a unique environment of significant growth in emerging markets.** Consumer items commonly used here are becoming available to the new middle class in emerging markets. As you have heard us discuss numerous times, many big U.S. companies are thriving due to this growth factor (exports chart above), and it is a significant contributor to corporate earnings. Much of the ongoing growth in this area is due to stimulus from the largest emerging market, China. So the questions remain: is China creating a bubble in their economy and can they sustain the current pace of growth? **We believe if China and the emerging countries are successful in avoiding a bubble problem our economy and markets will benefit as well.**

JOBS

You have heard it before: Jobs are a lagging indicator. Meaning, we should see the economy continue to turn up before job data moves into positive territory. This recession has been focused very much on job data because lost jobs affect us all directly as consumers and voters. Often an inexact science, job data is viewed in many ways from new jobless claims to new job creation, and of course, the unemployment rate. Each is subject to seasonal adjustments and revision after release. Jobless claims in this recession have been persistently hanging near the 500,000 weekly level. The markets get excited when claims are below that level but disappointed when that trend has reversed again as it has several times.

EARNINGS

Corporate earnings for the final quarter and year 2009 were outstanding in raw form, but must be adjusted for stimulus and recovery profits in the "write-off prone" financial industry. Adjusted earnings were good at about 16% year over year, and revenue increases, which are essential if the recovery is going to be sustainable, were decent. Analysts argue that inventory replenishing has been responsible for the improvement in earnings and GDP growth, but one economist measured an inflation adjusted inventory decline of $112 billion in 2009, more than twice as large as any other inventory reduction since 1950. If this is correct, inventory rebuilding may again stimulate growth this year.

MARKETS

After a short flourish in the beginning of this year, the markets have seen three "weak" weeks in response to some negative guidance from companies reporting earnings. Add to that uncertainty in the global economic marketplace, especially in Euro-land, and one can see why there is volatility. It is not uncommon for stock rallies to get ahead of themselves, especially when stimulus and monetary actions entice traders into the marketplace. We have felt that the weak dollar combined with low rates has attracted more aggressive pools of risk takers not aligned with traditional investors such as we represent. Recent strengthening in the Dollar, and perhaps a signaling of a bottom in interest rates has spooked some of the late cycle traders causing additional market volatility.

OUTLOOK

We continue to believe the abatement of stimulus will give way to a focus on fundamental opportunities in the marketplace as opposed to momentum which appears to have been the impetus for the late stage rally into the end of the year. While valuations are not near as attractive as a year ago at the depths of financial skepticism, we have found decent valuations in companies in various areas of the market. **In a climate of uncertainty, companies with balance sheet strength, ability to generate cash for growth and dividends, and a connection to the growing global marketplace are favored. Since it is likely developing market economies will come to comprise upwards of 50% of global GDP by 2019, investors cannot ignore these opportunities.** You have heard us press on this issue before, but it is most likely the best source of growth while the U.S. Consumer repairs his/her own balance sheet.

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