

Global Growth Favors Multinationals

In our newsletters, we like to share our outlook for trends that affect our investment portfolio decisions. Over the past ten years, we have all witnessed an amazing economic and investment cycle.

As our economy recovered from the late nineties bubble and a mild recession, the corporate world looked anemic but the consumer carried on. In the recovery, levels of corporate investment, which had surged in the late 1990's, did not reemerge despite economic stimulus. The US consumer however, the largest driver of our economy and perhaps foreign economies around the world, took every advantage given. Aided by a most accommodative Federal Reserve, money became abundantly available. Gobbling up debt of every imaginable and unimaginable form, the consumer consumed, rescuing our economy from what may have become a deeper recession. Success of the orchestration was visible in numerous measures of consumerism but no area more than the real estate market.

Behind the scenes, the great global liquidity machine built mountains of dollars abroad as Americans imported attractively priced goods. Monthly US trade deficits pushed more dollars overseas engorging the coffers of foreign nations and fueling their growth. Benevolently we have with our spending, funded the emergence of consumers in nations' previously rural and non-consuming. So, while our less-liquid US consumer is becoming somewhat tapped out, nations of new consumers are emerging. Unfortunately, these new consumers will not be driving down our streets to visit our malls and super shopping centers. Few of them will be surfing to online websites to purchase goods in the US. However, behind the scenes, many US companies here are going to benefit from the increase in emerging consumer activities.

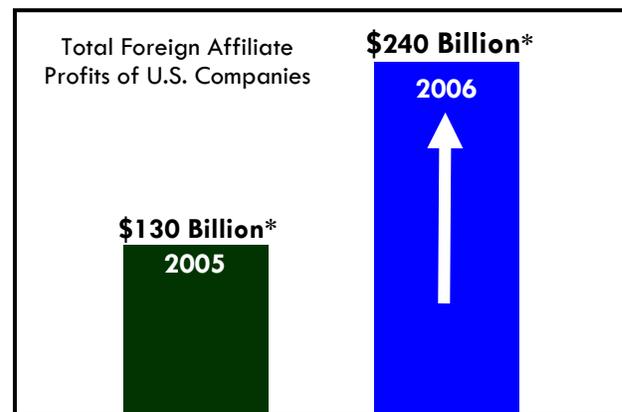
As advisors, we examine these events as to how this will affect our portfolio decisions. Smaller US stocks have dominated the investment landscape for some seven years now, but it is unlikely that smaller companies will benefit significantly from the success of emerging foreign economies. Small US companies are rarely large enough to have physical operations in foreign markets. While they may export, evidence shows that successful US companies in markets abroad are successful because they have operations domiciled in those countries. As stated recently in the USA Today, "Roughly 70% of total U.S. sales in foreign markets come from Corporate America's 23,000 foreign units rather than exports from factories here,"

The impact of the growth in foreign earnings in US companies is becoming increasingly significant. According to Joseph Quinlan, chief market strategist for Bank of America, "Globalization has been very good to Corporate America,". Total foreign affiliate profits this year (2006) are expected to top \$240 billion — almost twice the 2002 figure." (see chart below) With growth rates in foreign nations exceeding those in the US the trend appears to be the real thing.

We admit we have been early in weighting our portfolios to issues most likely to be in harmony with these global economic issues, as we believe global liquidity factors have extended momentum in more speculative areas. Recently there has been a visible shift favoring larger cap stock groups in which most multinational firms reside. Since we believe this could be a long lasting trend from both a global economic and Large Cap style viewpoint, there is time for investors to realign their portfolios. The good news is more noteworthy due to the relative valuation and financial strength advantage most classic large growth stocks carry over their small cap brethren.

We would be happy to share additional information into our insights and as always hope that this information is beneficial to your own investment decision making.

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