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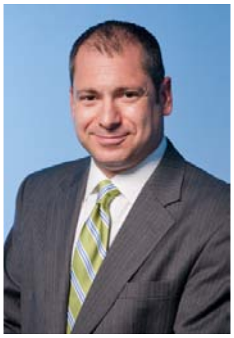

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Our last stand for 2010: Corporate earnings and 2nd half '10 prognosis

Here is the 64 Trillion Dollar question, the one that sums up virtually everything for investors today: We are in the midst of discovering whether or not the Government stimulus induced growth during the last few quarters will successfully be handed off to the private sector. ***Will the private sector carry the ball to a touch down or will it fumble and push us into the dreaded but oft mentioned double dip recession?***

First, the bad news. Macro economic statistics are rolling over quickly. Manufacturing, the service sector, and housing are decelerating. European debt crisis, aggressive monetary tightening in China, and lower energy prices tell us that the global economy is decelerating.

Second, the neutral news. A little over 80,000 jobs were created last month. Why neutral? Because on one hand, newly created jobs is always a good thing. On the other hand, job growth is so anemic that it barely moves the needle. Whether this is good or not is debatable, but as we all know, beauty is in the eye of the beholder.

Third, the good news. Manufacturing wasn't as bad if you strip out defense spending. Meaning, private sector manufacturing was much better than the overall figures looked. Housing is too tough to call since tax credits, which are outside of the norm, have manipulated the market to the point that housing stats are subject and we would need another round of fresh data for 3 months to see a trend. But new home construction has been the lowest in decades, thereby allowing natural population growth to take up some excess inventory. Ford and General Motors have recently reported that sales have been strong. There is a resurgent technology spending boom taking place right now; semiconductor chip sales had a record quarter. Growth in China and other big developing nations is still strong. China and India, each with a population of over 1,000,000,000, as a percentage of their populations, only 2.8% and 1.2% own an automobile respectively.

The figure goes to a little over 17% for Brazil. Long term, anyway, that is a plus for manufacturing.

But we need to know what the near term “market tell” or potential catalyst is for the stock market and here it is; Q2 corporate earnings and the 2010 2nd half prognosis. We are now almost entirely dependent on the Micro picture, individual company performance, to reinvigorate stocks. This is a tall order, but with sky high productivity, corporate earnings should remain strong. My sense is that corporate cost cutting was so aggressive over the last 2 years, that we don’t need much more than minimal economic growth for a strong earnings season. Plus, we have had a light “pre-announcement season”, which is when companies warn of earnings shortfalls in advance of their actual earnings report to prepare investors beforehand.

With the main averages taking a recent 15% plus beating and relatively light earnings pre-announcements, investors may have gotten overly negative on stocks. We’ll know for sure in about 2 weeks which is when we’ll be in the full swing of second quarter earnings announcements, but I think it is time to pick up shares in those beaten up “Strong Micro” players. You are welcome to call me for individual recommendations.