

CLiENTFIRST

Strategy, Inc.



*Written by Mitchell O. Goldberg
ClientFirst Strategy, Inc.
March 8th, 2011
For immediate distribution*

Oil and stock market volatility explained

Analyst forecasts for corporate earnings, revenue and profit margins depend on lots of external factors; energy prices among the more prominent ones.

When the price of oil rises, analysts and investors lose confidence in forecasts. Since forecasts have become largely bullish as of late, insecurity about forecasts is acute.

With just about 3 weeks left in this first quarter of '11, investors are a little spooked about the perceived rise in the potential for lowered earnings preannouncements that typically occur during the last two weeks of each quarter. Not to mention the perceived potential that full year '11 forecasts could be in jeopardy of being lowered. Ahead of this, investors are pricing in risk that things may not turn out to be as good as expected in corporate America over the next 3 to 9 months. **Hence, buyers go away and sellers rule the day.**

You may have noticed that when the price of oil drops, stocks advance on the back of rising confidence in forecasts. This is because investors' confidence in forecasts rises in such scenarios. Oil goes up and investors' confidence in forecasts wanes. I expect stocks to remain mired in this atmosphere of waning/waxing confidence in analyst forecasts and corporate prognostications until the second week of April '11, which is when Q1 earnings start to be announced.

As of today, the volatility in stocks is due strictly to investors' insecurity. We haven't actually heard from any companies that have preannounced an earnings shortfall...so far. **While I full well expect to hear more preannouncements than the last few quarters, my sense is that oil and other commodities induced inflation will be overtaken by a pick up in corporate demand on the part of large capitalization domestic companies.**

The risk of course is whether or not oil keeps rising in price, how long will the price increase stick, and how high will the price go until it peaks. It is tough to say what price a barrel of oil would have to go for investors to declare "all bets are off" If you sell today,

you may potentially save a ton of money in such a high oil price environment (since the probability of a recession would increase). If you bail out of stocks and if oil stabilizes or retreats in price, you run the risk that the bull market resumes an extended period of wealth creation, something we all desire.

Again, my expectation is for corporate demand to remain healthy. My expectation that an oil supply shock won't occur is based on my experience that sky high oil prices is incentive enough for oil producing nations to pump like mad. And since oil producing nations are indebted, they may pump us right into a supply glut...just like the summer of '08 when oil rocketed to 147/brl; it then dropped to 33/brl.

Thanks for reading this. Please share your comments with me, whether or not you agree with my views. My views are not guarantees and are subject to change without notice.

Please forward this to someone you know who may be interested in reading this commentary.

Interested in becoming a client? Call me. Let's talk about it.

This information is provided for informational purposes only and is not a solicitation or recommendation that any particular investor should purchase or sell any security. The information contained herein is obtained from sources believed to be reliable but its accuracy or completeness is not guaranteed. Any opinions expressed here in are subject to change without notice. Past performance is not a guarantee of future results.

Securities & Investment Advisory Services Offered through NEXT Financial Group, Inc., member FINRA/SIPC.
ChENTFIRST Strategy, Inc. is not an affiliate of NEXT Financial Group, Inc.