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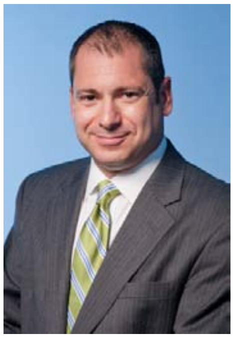

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# It's hard to be a bull…So why bother?

Investors have had a lot to endure. And they couldn't be blamed if they decided individually or en masse to throw in the towel and just hit the "sell everything and be done with it" button.

A litany of issues; Japan and Australia are back in recession, housing is back in recession, Europe (and the rest of the world) is holding its breath over the Greek debt crisis, the end of the QE2 program, the debt ceiling, the rise in food and energy inflation, political upheaval in Middle East/North Africa, and the latest issue…the stunning deterioration of U.S. economic statistics. I use the word stunning to describe both how rapidly and how far the numbers deteriorated in terms of manufacturing (Institute for Supply Management), labor (Dept. of Labor), and regional FED surveys (The Federal Reserve).

So much to consider. But anyone who knows this author knows 2 things for sure; that whatever is in the news is not necessarily "THE" news to focus on and that I simply do not have patience for fence straddlers.

A lot of pundits put it this way; **"is this slowdown in economic stats temporary or is it the beginning of something that will last longer, like a recession?"** I want to focus you on a different question; "THE" question whose answer is existential to the bull market of the last 30 months. To cut out the background noise, the question to ask is **"Will the recent rollover in econ stats weigh on individual corporate earnings?"**

The rally we're in began as "second derivative"; meaning stocks went up because things weren't as bad as previously thought (Remember when FED Head Bernanke said the U.S. won't nationalize the banking sector on "60 Minutes/CBS" in March of 2009?). **But most of it has been on the extraordinarily powerful earnings of individual companies; macro economic statistics be damned.** After the extensive (some would call it grueling) cost cuts at major multinational companies, **operating leverage rose to new heights. It is this factor that accounts for the Trillions of Dollars**

**on corporate balance sheets, the plentiful free cash flow, and earnings par excellence.**

Companies, in the opinion of ClientFirst Strategy, Inc., are valued on earnings, not on revenues or how many people they employ. So, companies that can continue to cut costs in developed markets and reinvest in emerging growth economies should continue to show earnings growth. This, of course, depends on whether or not the economies of BRIC (Brazil, Russia, India, and China) countries keep growing. Even with China and India tapping the brakes on growth to stave off inflation, their economies continue to grow and to grow enough for continued earnings growth of multinational companies…in my opinion. The reasons are here:

1. Commodities induced **inflation really was transitory**; inventory of crude stocks came in much higher than expected. Certainly, demand has gone down (demand destruction) and the rise was more about potential supply constraints.
2. Labor costs are the primary component of inflation. **Labor is not in a strong bargaining position for salary raises.** Plus, with a new crop of college grads entering the job market last month, there is ample supply of workers.
3. **Price to earnings multiples of large cap companies are below historic norms**; while this may not provide a catalyst for upside potential, it is oft referred as a potential safeguard against downside.
4. **With inflation off the table, interest rates should remain low.** The 10 year Treasury bond yield has been moving lower, even in the face of QE2 and the recent near panic over inflation. Hey, weren't bond yields supposed to skyrocket after QE2 is completed? The bond market told us that the yield curve (spread between short term bond yields and long term bond yields) is flattening, a reliable indicator of low inflation in a low growth economy. Yes, a flattening yield curve could indicate a looming recession, but it would have to be flatter or inverted to push me to that conclusion.
5. Do you know what a tried and true catalyst for stock market appreciation is? The **combination of low inflation and low interest rates**. My expectation is that the FED is on hold (regarding its Zero interest rate policy) far longer than anyone I've read has anticipated…including myself!
6. With commodities inflation looking more tame, India and China should be closer to the end of their respective tightening cycles. While on the subject of emerging market economies, huge swaths of their populations are moving up to the middle class. People simply do not go from automobiles back to bicycles or from smart phones back to no phones. The progress of nearly a billion people in any measure is underway and whatever economic and financial turmoil we have now, **progress shall overcome as it has ALWAYS done so in the past.**
7. **Municipal tax receipts are actually hitting record highs**, so here is a good stat for the U.S. that hasn't received a lot of play in the media… http://www.bea.gov/national/nipaweb/TableView.asp?SelectedTable=88&ViewSeries=NO&Java=no&Request3Place=N&3Place=N&FromView=YES&Freq=Qtr&FirstYear=2000&LastYear=2010&3Place=N&Update=Update&JavaBox=no

8. The most recent figures for the **ISM (Institute for Supply Management) Services Sector came in better than expected**. Too bad it came out this past Friday, June 3rd, after the May employment figures. Even so, the service sector employs 90% of all people in the U.S. This May report also said that the component that measures new business orders posted a solid gain and that the component tracking employment gained.

Put it all together:

First, I see the downside potential, as measured by the Dow Jones Industrial Average, at 11,555, which is an intraday low just after the Japanese Earthquake/Tsunami/nuclear disaster. That is approximately 4.5% from Dow 12,100.

Second, be a buyer of the beaten down quality names and fat dividend payers, particularly within the industrial names.

Third, one can play the safe card by being completely in cash and one can play the fully risk on card by being fully invested in stocks. My inclination is to be a buyer in pieces at these levels, to be more in than out, and to be patient and not to give up on funding the needs of future retirement income. We've recently raised cash, as my clients know, and we are deploying some of it currently.

Fourth, many of the factors impacting investors are known; they aren't as dangerous once they're recognized as markets adjust. The Greek debt situation, as one example, has been known for over a year. The "blindside" events are what typically hits markets, not what governments and economies have had time to prepare for.

Fifth and last, understand that we are in between earnings seasons. We won't get the next earnings season underway until the beginning of the second week of July. So until then, we only have MACRO stats to focus on. Typically, the last week of June is the "negative preannouncement" season, so we'll know with much greater clarity just how good corporate earnings will be in about 3 weeks.

Thanks for reading this. Please **FORWARD** this to someone else you think may be interested in reading it.

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